



**Workshop: Prospects for  
European Contractors on the African  
Construction Market**  
**EIB's use of blending instruments**

*EIC - Porto, October 17, 2014*



# The European Investment Bank (EIB)

## Who we are



- Largest multilateral lender and borrower in the world
  - Raise our funds on the international capital markets
  - Pass on favourable borrowing conditions to clients
- More than 400 projects each year in over 160 countries
- Approx. 10-15% of lending is outside the EU / pre-accession
- Headquartered in Luxembourg and some 30 local offices
- Around 2 000 staff:
  - Not only finance professionals, but also engineers, sector economists and socio-environmental experts
  - More than 50 years of experience in financing projects

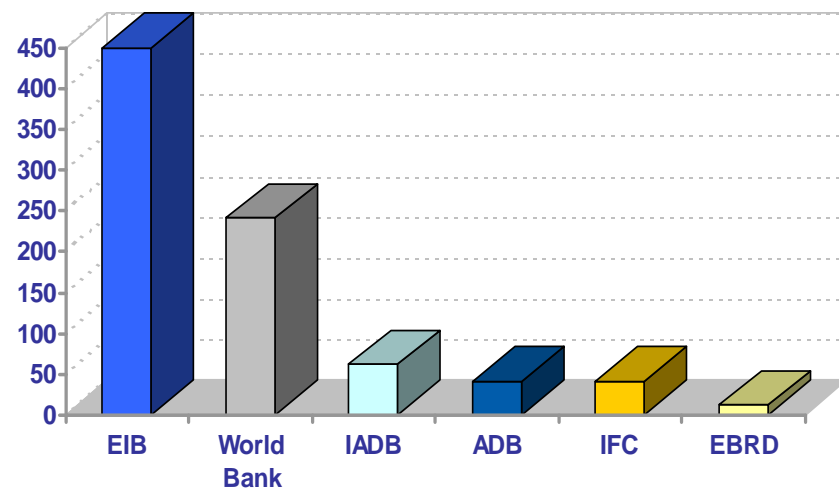


# EIB: The World's Largest Multilateral



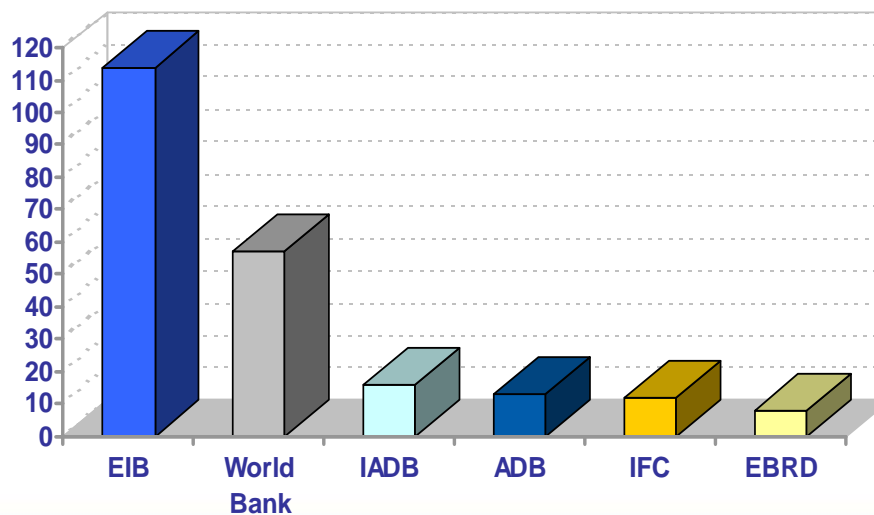
## Outstanding Loans

USD billion



## Signed Loans

USD billion





## The European Investment Bank (EIB)

### European priority objectives outside the Union:

- Private sector development – financial sector (SMEs), corporate lending
- Social and economic infrastructure – public and private
- Security of energy supply
- Environmental sustainability



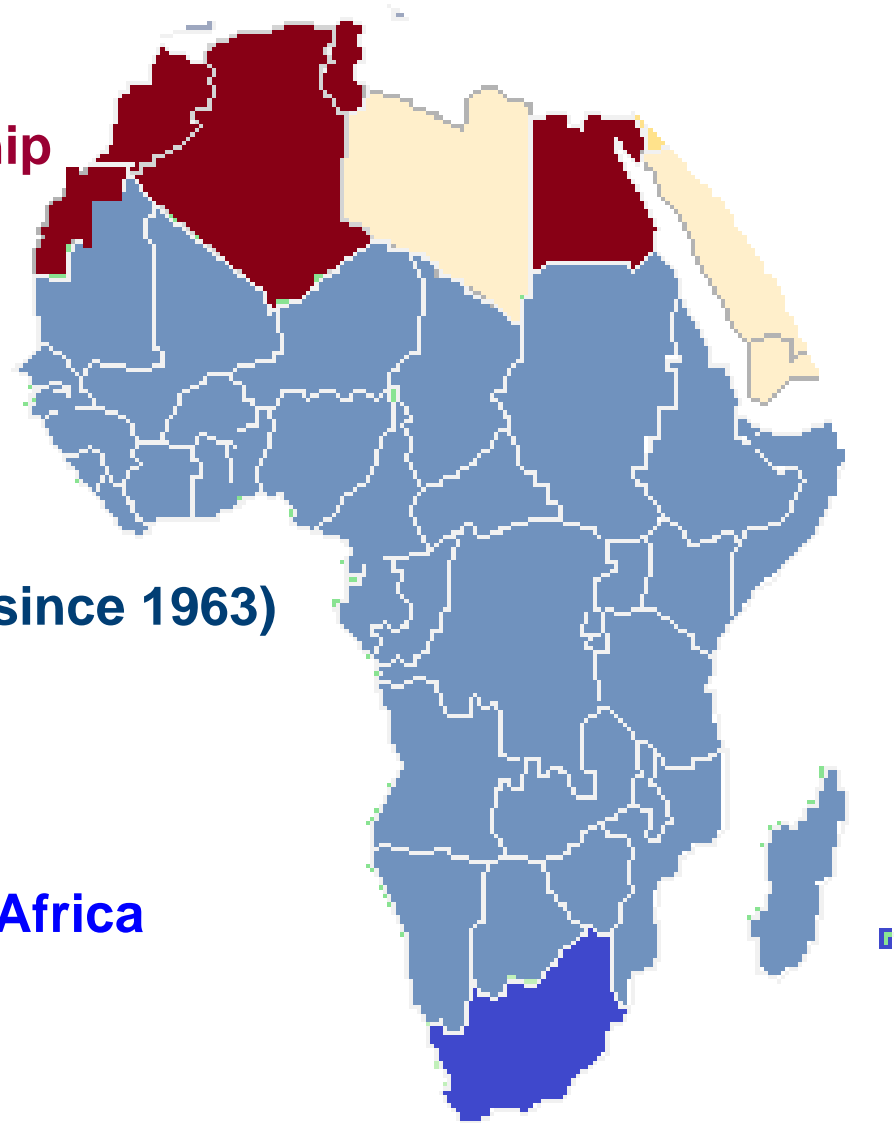
## EIB in Africa



**European-Mediterranean Partnership  
Investment Facility (FEMIP)**

**Cotonou Agreement between  
EU and ACP States (ACP mandate since 1963)**

**Mandate for the Republic of South Africa**



More information under <http://www.eib.org/projects/regions/index.htm>

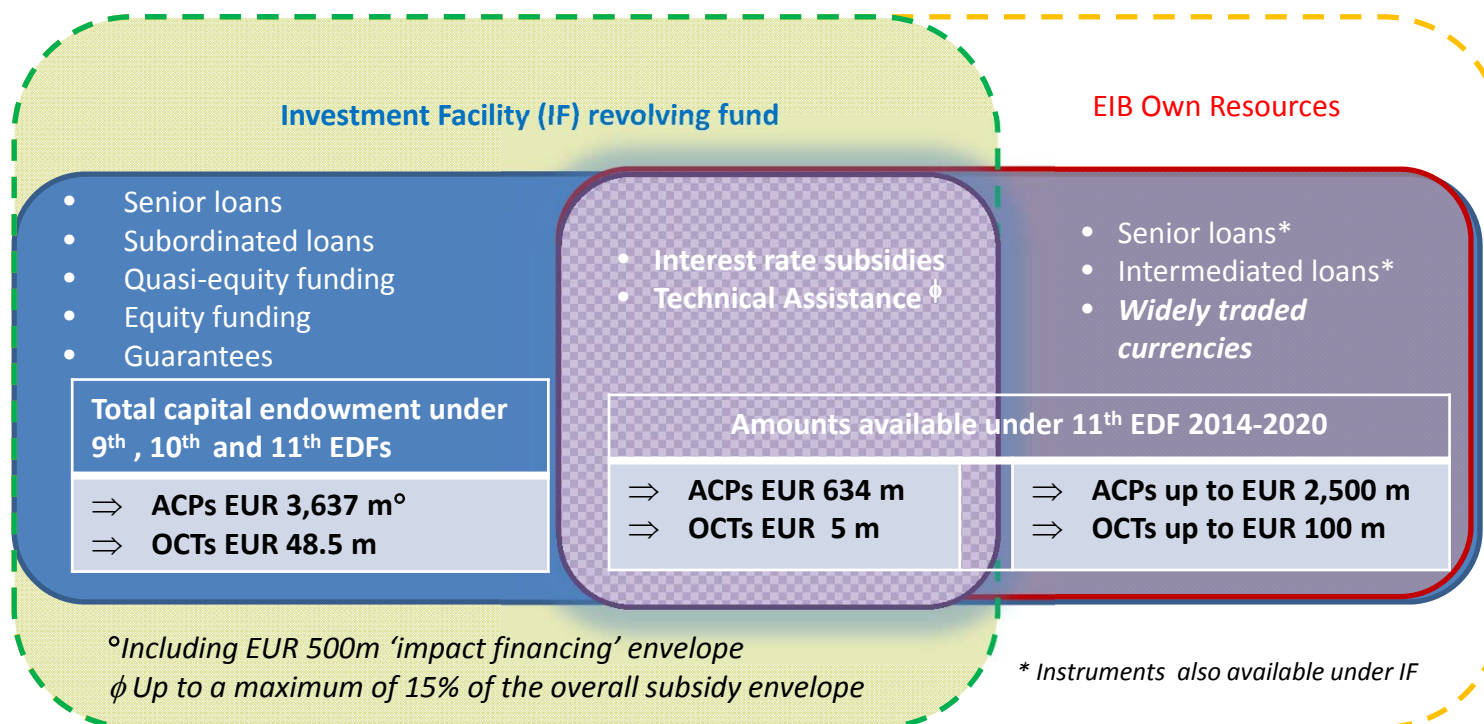


# ACP: Resources and Amounts



Funds managed by the EIB : the Cotonou Partnership Agreement & Overseas Association Decision

European Development Fund – EDF  
(EU Member States' budgetary funds)







## 10 years of the IF (2003-2013)



88 projects co-financed  
with more than 25 partner  
Institutions



EUR 2bn support-  
ing financial sector  
development



EUR 412m for  
projects with  
climate action  
components



EUR 3.4bn for 205 projects  
85% of lending for private  
sector projects

EUR 71m towards clean drinking  
water and sustainable sanitation  
projects



45 projects benefited  
from over EUR 330m in  
Interest rate subsidies



Nearly EUR 280m  
towards local  
microfinance  
institutions

EUR 190m  
towards  
21 private  
equity  
funds worth a  
total of  
EUR 1.3bn,  
supporting  
374 SMEs





## EIB lending in the ACPs & OCTs 2011-2013



in EUR m

Year	Investment Facility (IF)	Own Resources (OR)	N° projects	Total
2011	203.9	386.6	26	590.5
2012	354.8	289.5	21	644.3
2013	471.5	240.5	20	712.0*

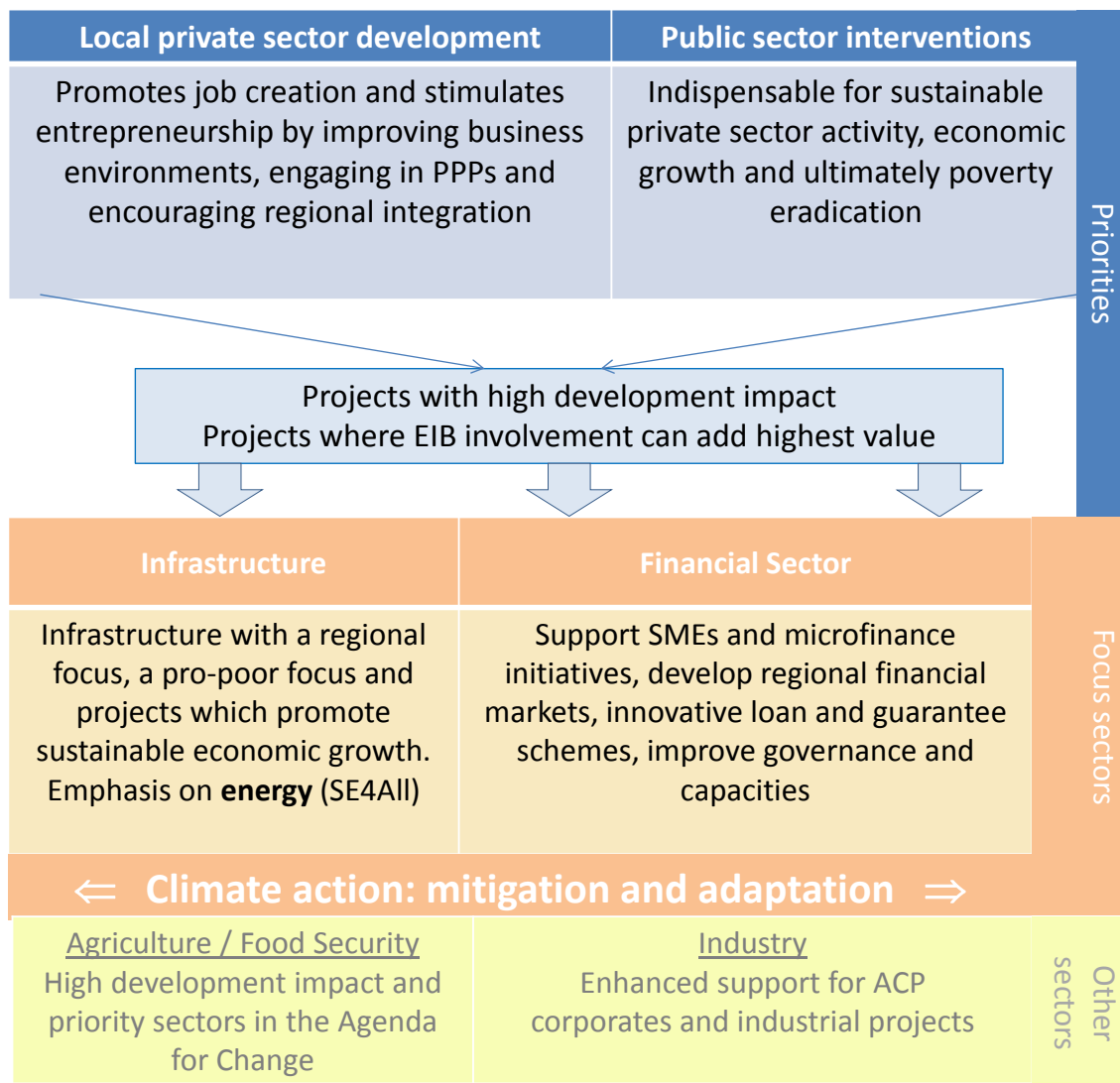
- In 2013, a further 2 projects for EUR 260 m were signed in South Africa (under separate mandate), and 3 projects for EUR 15.6m in ACP countries under the Energy Sustainability Facility, bringing **total lending for the year to EUR 987.6m**

**In the ACPs/OCTs, the EIB disbursed EUR 425.1 m in 2013**





# Roadmap for EIB activities in the ACPs and OCTs 2014-2016



**Do More:** Gradual increase in lending



**Do Better:** Results measurement – minimum attainment of performance indicators



**Do Differently:** New sectors, different financing instruments & impact financing



# How is project quality assessed?



- Technical soundness, risks and mitigation measures, capacity for products/services
- Promoter capability to implement, operate and maintain project
- Timing, employment, operating and maintenance costs, comparison with costs of similar projects
- Compliance with applicable legislation and EIB guidelines on procurement and environmental impact
- Analysis and market and demand
- Economic and financial profitability (e.g. rate of return)



# Measuring project impact



January 2012: Introduction of a **Results Measurement Framework (ReM)** enabling an analysis of aggregate results as data build up

<b>Pillar 1</b>	<b>Expected contribution to lending objectives</b>	An assessment of a project's consistency with EIB mandate objectives and its contribution to EU priorities and country development objectives, going beyond a focus on eligibility alone.
<b>Pillar 2</b>	<b>Quality and soundness of the operation, based on expected results</b>	A series of sector-specific standardised indicators to capture a project's economic, social, environmental and institutional outcomes. It continues to measure project quality and its ability to achieve the expected results.
<b>Pillar 3</b>	<b>Expected financial and non-financial additionality</b>	An assessment of the EIB additionality over market alternatives in terms of financial product, technical, structuring and sector contribution and standards and assurance.



## Blending in EIB projects

**EIB uses 2 main sources of blending in ACP: Cotonou IF Subsidy Envelope and EU-Africa Infrastructure Trust Fund**

### Blending instruments:

- **Interest rate subsidies** to soften EIB public sector loans to comply with IMF/HIPC guidelines;
- **Technical Assistance:**
  - Infrastructure: project preparation and implementation; technical feasibility studies, ESIA's, bankability studies, supervision of works;
  - Financial sector: improving the functioning of banks (credit, environmental management etc) and support to SMEs
- **EU-ITF:** regional focus and special window for SE4All – **TA, investment grants and support for new financial instruments**



## Blending – New Financial Instruments



### Derisking private energy projects: Africa Energy Guarantee Fund

#### Background

- SE4All – 3 targets by 2030: (i) universal access to energy; (ii) doubling the share of RE; (iii) doubling the rate of improvement in EE.

#### Objective of AEGF

- To increase the level of private investment flows for SE4All eligible projects

#### Means

- To provide for risk mitigation and credit enhancement guarantees for private investors/lenders, complementing existing instruments in the market, targeted at sub-Saharan Africa and Mediterranean
- To unlock capacity from the private insurance market through co-and reinsurance
- EUR 1 million received from the EU AITF for concept development, and concept note for 30m EUR first loss tranche in pipeline
- Objective: EUR 100 mln facility supporting a multiple amount in guarantees

## **AEGF - Findings of the Feasibility Study**

- **African countries are amongst the highest risk countries for insurers in the world as evidenced i.a. by their OECD ratings and Berne Union claims statistics**
- **No serious constraints for traditional political risk insurance – for smaller projects this may not hold true**
- **Insurance/guarantee providers (ECAs, private insurers) have limited appetite for extended & comprehensive longer-term investment cover for in high risk countries**
- **Conditions are restrictive in terms of amounts, tenors, required security and guarantees from governments in question**
- **There is a need for IFIs/DFIs to increase their leveraging potential and mobilise private sector financing through guarantees**

# Lake Turkana: Innovative use of EU- AITF

- ❖ Lake Turkana Wind Power project: 300 MW wind farm in northern Kenya, financed by EIB, AfDB and European DFIs - total costs of EUR 620 mln
- ❖ Major European interest: Vestas + Siemens + European equity holders
- ❖ EUR 25 mln contribution from EU-ITF under Sustainable Energy for All Window (SE4All) – invested by EIB as **preferred equity share** – under normal circumstances money earns a small return and can be re-used
- ❖ Impact:
  - ✓ Catalytic impact: allowed for financing gap that cannot be closed in the market
  - ✓ High leverage: 1:25 in terms of Project cost and up to 1:52 when revenues are included
  - ✓ Efficient as structure lowers project cost
  - ✓ **End-result: affordable clean energy for Kenyans**





<http://www.eib.org/acp>

