European Commission

Neighbourhood Investment Facility

2015 Operational Annual Report

DG Neighbourhood and Enlargement Negotiations

European Commission
Directorate-General for Neighbourhood and Enlargement Negotiations

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The NIF is implemented in partnership with:

Contents

Foreword

The Neighbourhood Investment Facility supports our partners in developing key economic sectors. But the EU also benefits from our neighbours being economically and politically stable societies.

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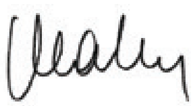
I am pleased to present this 2015 Operational Annual Report on the Neighbourhood Investment Facility (NIF).
The NIF provides grants, technical assistance or guarantees in support of loans extended by the EFIs to beneficiaries in the Neighbourhood region. These operations are embedded in a dialogue with partner countries, seeking to create a legal and economic environment that is conducive to the success of these projects and to generating knock-on effects.

Since its launch in 2008 the **Neighbourhood Investment Facility** has become a key instrument supporting the political priorities of the EU's Neighbourhood Policy. In cooperating with European Financial Institutions (EFIs) such as EIB, EBRD, KfW and AFD, it has significantly softened their lending conditions to the benefit of taxpayers and enterprises in the EU´s Neighbourhood. This booklet illustrates the activities we have jointly financed: infrastructure projects, for instance in the energy and transport sectors, as well as targeted assistance to small and medium-sized companies, in some cases provided in very innovative ways.

I believe that these projects will strongly contribute to economic development and regional cooperation in the EU´s Neighbourhood region. But I think we can reach beyond pure economic benefits. Ultimately, we want to contribute to strengthening political stability in our partner countries. Thus, the EU has reviewed recently its European Neighbourhood Policy, putting a strong focus on promoting sustainable democracy, accompanied by inclusive economic development. Indeed, I believe that our support will strengthen the confidence of citizens in their societies' future stability and prosperity. Moreover, the **Neighbourhood Investment Facility** will also be a core element of the recently proposed External Investment Plan, mobilising investments in the EU's Neighbourhood to tackle the root causes of migration.

I would like to thank the NIF financing partners – banks, the authorities in beneficiary countries and the participating private sector – for their contributions and cooperation. The participation of this large number of diverse partners makes the economic development of key sectors a truly joint endeavour. Fostering economic development and regional cooperation within our Neighbourhood as well as closer economic integration with individual countries are key ingredients to successfully tackling the common political challenges that we are facing today.



Johannes Hahn
Commissioner for Neighbourhood and Enlargement Negotiations

The Neighbourhood Investment Facility in 2015

Salient issues discussed this year, from the UN Convention on Climate Change in December, to key Sustainable Development Goals (SDGs) agreed in September

FOCUS AND FLEXIBILITY IN A CHANGING WORLD

Since its inception in 2008, the EU Neighbourhood Investment Facility (NIF) has promoted convergence, recognising that Europe's future growth and stability are closely aligned with the prosperity of its neighbours. Within Member States, the EU has targeted less advantaged regions for investment in an effort to promote more even and equitable development. In the same way, through the NIF and other instruments under the European Neighbourhood Policy (ENP), the EU helps its neighbours leverage the investment and support they need to grow sustainably, giving them a 'hand up' so they move forward on their own.

2015 has been a year for Europe and the world to step back, look at what has been achieved and what remains to be done. Salient issues discussed this year, from the UN Convention on Climate Change in December, to key Sustainable Development Goals (SDGs) agreed in September, goals such as "industry, innovation and infrastructure" (SDG9), "affordable and clean energy" (SDG7), "peace, justice and strong institutions" (SDG16) closely parallel the NIF's thematic focus.

The NIF's current Strategic Orientations (2014-2020) prioritise energy and transport connections with the EU and between individual countries in the Neighbourhood; energy efficiency, renewable energy production and energy security; environmental threats and climate change; and job creation and equitable socio-economic development, particularly through support to small and medium-sized enterprises (SMEs) and the social sector.

While endorsing a global vision for sustainable and inclusive economic growth, engaging a broad range of stakeholders, including the private sector, the NIF has focused on the needs and aspirations of the countries in the Neighbourhood and on how closer economic cooperation and policy convergence with the EU can contribute to making them a reality. While many of its neighbours are facing pressing challenges to their prosperity, deeply felt also in the EU, the NIF upholds the vision for the longer term and offers concrete support to build a better, more stable future for the EU and its Neighbourhood.

POLICY FRAMEWORK

In 2007 the European Union redefined its policy with respect to the EU Neighbourhood: Algeria, Egypt, Israel, Jordan Lebanon, Libya, Morocco, Palestine, Syria and Tunisia in the South; and Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine in the East. The aim was to prevent new dividing lines after the 2004/2007 enlargements of the EU, strengthen political ties and promote ever-greater economic integration, building on and consolidating shared interests and values: democracy, the rule of law, respect for human rights and social cohesion.

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The EU has a vital interest in seeing its southern and eastern neighbours achieve sustained economic growth and stronger governance. Peace and prosperity there strengthens the EU too, creating benefits for everyone. This lies at the heart of the privileged relationships that the EU is building with its neighbours.

The depth of the relationship and the speed at which it develops is decided by each country in agreement with its EU partners, and formalised in bilateral Action Plans and Association Agendas. These cover a wide range of reform and development objectives of mutual interest and identify a number of clear priorities, which the EU then supports by providing technical expertise, financial support and economic integration.

In the East, new Association Agreements/ Deep and Comprehensive Free Trade Areas (AAs/DCFTAs) concluded in 2014 have brought the relations between the EU and Georgia, the Republic of Moldova and Ukraine to a new level. The agreements aim to achieve the closest possible political association and the greatest possible degree of economic integration. In the South, DCFTA negotiations have been launched with Morocco and Tunisia. DCFTAs offer new opportunities for trade and closer integration of their economies with the EU, but also require major adaptations, also for the private sector.

Any country that has signed an Action Plan – currently Armenia, Azerbaijan, Georgia, Moldova and Ukraine in the Neighbourhood East and Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia in the South – can benefit from NIF funding. In exceptional cases, it may be extended also to other Neighbourhood countries.

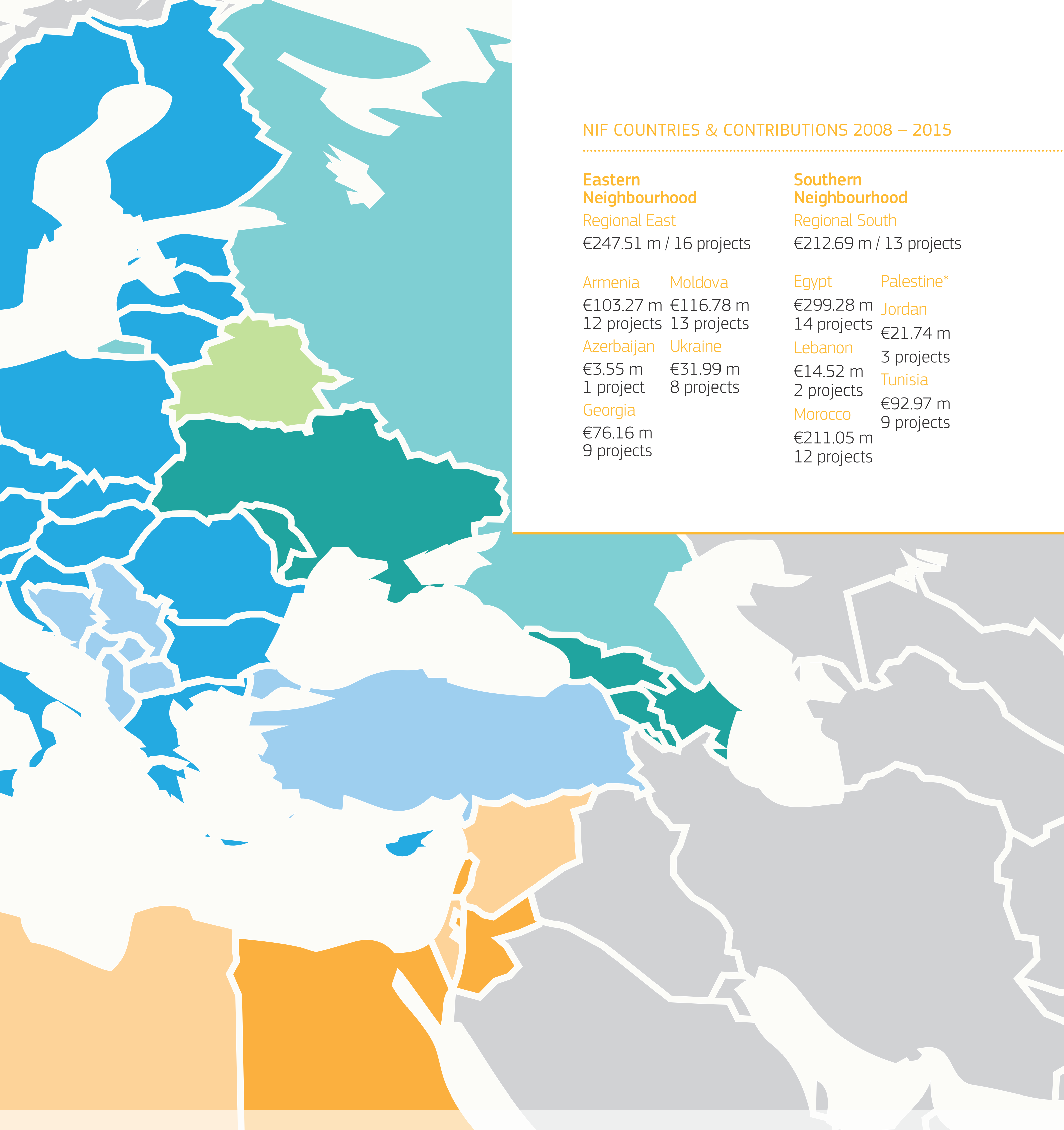
In its 2015 review of Neighbourhood policy, the EU highlighted modernisation, investment and opportunities for young people as top priorities for economic cooperation. It reiterated the importance of stronger partnerships with the private sector and the wide use of innovative financing tools, such as blending grants and loans in order to leverage additional resources and increase the impact of EU aid.

While many of its neighbours are facing pressing challenges to their prosperity, deeply felt also in the EU, the NIF upholds the vision for the longer term and offers concrete support to build a better, more stable future for the EU and its Neighbourhood.

2008-2015

NIF at a glance

NIF portfolio, percentage of total NIF contributions



NIF COUNTRIES & CONTRIBUTIONS 2008 – 2015

Eastern Neighbourhood

Regional East
€247.51 m / 16 projects

Armenia
€103.27 m
12 projects

Moldova
€116.78 m
13 projects

Azerbaijan
€3.55 m
1 project

Ukraine
€31.99 m
8 projects

Georgia
€76.16 m
9 projects

Southern Neighbourhood

Regional South
€212.69 m / 13 projects

Egypt
€299.28 m
14 projects

Lebanon
€14.52 m
2 projects

Morocco
€211.05 m
12 projects

Palestine*

Jordan
€21.74 m
3 projects

Tunisia
€92.97 m
9 projects

NIF RESOURCES ALLOCATED TO APPROVED PROJECTS FROM 2008 UNTIL 2015 €1.432 BILLION

SOUTH €852.3 million
EAST €579.3 million

EFI RESOURCES LEVERAGED ABOUT €13.83 BILLION

SOUTH €7.17 billion
EAST €6.66 billion
112 projects supported with a total value of about €30 billion
SOUTH 52 projects worth about € 18.70 billion
EAST 60 projects worth about €11.95 billion

NIF COUNTRIES & BENEFICIARIES

EU Member States

ENP countries directly eligible under the NIF

Other ENP countries

(*) Palestine: this designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.

Analysis of NIF portfolio 2008-2015

Between 2008 and 2015, a grand total of 112 projects have received final approval for Neighbourhood Investment Facility (NIF) funding.

The geographical allocation of the NIF grants has been fairly well balanced in this period. 63 projects and €852m (60%) of NIF funding have been approved in the South compared to 59 projects and €579m (40%) in the East.

Between 2008 and 2015, a **grand total of 112 projects** have received final approval for Neighbourhood Investment Facility (NIF) funding. The total amount of NIF support provided for these projects comes to €1,431m, including €35m in fees.

The **geographical allocation** of the NIF grants has been fairly well balanced in this period. 52 projects and €852m (60%) of NIF funding have been approved in the South compared to 59 projects and €579m (40%) in the East. In addition, regional projects involving more than one country are a major part of the portfolio of approved projects. Regional projects in the South accounted for 25% of NIF contributions for the South while the corresponding figure for the East was about 43%.

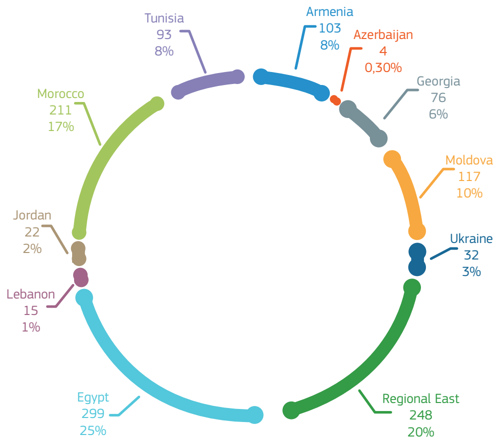
With regard to the **sector distribution** of the NIF grants, the vast majority of NIF support between 2008 and 2015 was granted to investments in the areas of energy (€513m or 36%), water/sanitation (€217m or 15%) and transport (€215m or 15%). The second largest individual share of NIF support went on private sector development (€362m, about 25%), followed by investments in the social sector (€82m, about 6%), multi-sector projects (€28m, about 2%), the environment (€10m, about 1%) and agriculture (€4m, less than 1%).

The **type of support** awarded by the NIF in the period 2008-2015 focused mostly on investment grants (€752m or around 53% of NIF contributions), with technical assistance (€370m or around 26%) taking second place. NIF support also came in the form of guarantees (€215m or around 15%) and contributions to equity (through funds, €59m or around 4%) as well as fees (€34.71 or around 2%)[1].

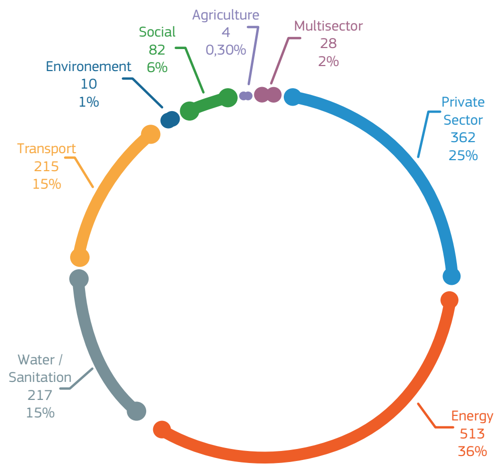
About €13.83bn of lending has been provided by European Financial Institutions to projects since the NIF was launched in 2008. Of this, around €7.17bn has been lent to the South and around €6.66bn to the East. With NIF funding of €1.431bn, this amounts to a financial leverage of almost 10:1, or €9.7 of total lending for each euro provided by the NIF. A total investment volume of €30bn is estimated to have been triggered in this period. In addition to financial leverage, the NIF has also contributed considerably to the quality of supported projects. Although this is not easily measurable, benefits are both socio-economic and environmental in nature. There has been a growing trend for joint EFI operations, i.e. for projects that receive funding by more than one EFI. In the South, 27 projects have involved 2 EFIs, 13 projects involved 3 EFIs and 1 project attracted as many as 4 EFIs. In the East, 31 projects involved 2 EFIs and 7 involved 3 EFIs.

Since 2008, 102 of the projects approved to date have already been contracted, representing about 86% of the total grant amount approved (from EU budget and Trust Fund).

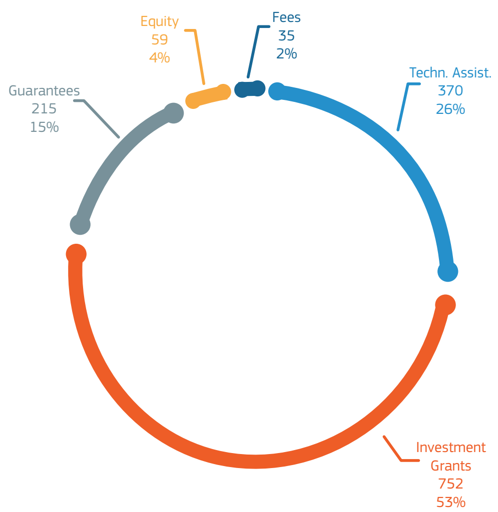
(1) The total NIF amount of €1.431bn mentioned above includes €34m or about 2% of fees.



NIF by country/region in millions of euro



NIF by sector in millions of euro



NIF by type of support in millions of euro

SOUTHERN NEIGHBOURHOOD

Country	Energy	n°	Environ-ment	n°	Multi-sector	n°	Private sector	n°	Social sector	n°	Trans-port	n°	Water / Sanitation	n°	Agri	n°	Total NIF	n°
	€ million		€ million		€ million		€ million		€ million		€ million		€ million		€ million		€ million	
Regional South	22.03	2			10.40	2	175.06	8			5.20	1					212.69	13
Egypt	158.27	7	10.44	1					34.10	1	45.04	2	51.43	3			299.28	14
Jordan	21.74	3															21.74	3
Lebanon	4.16	1											10.40	1			14.52	2
Morocco	155.84	5							19.56	3	18.25	2	17.40	2			211.05	12
Tunisia	16.25	3							23.69	2	28.56	1	24.47	3			92.97	9
Total South	378.29	21	10.44	1	10.40	2	175.06	8	77.35	6	97.05	6	103.70	9	0	0	852.29	53

EASTERN NEIGHBOURHOOD

Country	Energy	n°	Environ-ment	n°	Multi-sector	n°	Private sector	n°	Social sector	n°	Trans-port	n°	Water / Sanitation	n°	Agri	n°	Total NIF	n°
	€ million		€ million		€ million		€ million		€ million		€ million		€ million		€ million		€ million	
Regional East	59.76	4			12.30	1	169.22	10					6.24	1			247.51	16
Armenia	10.35	1					15.38	1	1.61	1	35.08	4	40.85	5			103.27	12
Azerbaijan											3.55	1					3.55	1
Georgia	22.74	3									23.05	2	26.21	3	4.16	1	76.16	9
Moldova	18.25	2					2.14	1	3.1	1	55.93	5	37.36	4			116.78	13
Ukraine	23.64	6			5.20	1							3.15	1			31.99	8
Total East	134.92	16	0	0	17.50	2	186.74	12	4.71	2	117.61	12	113.81	14	4.16	1	578.98	59
GRAND TOTAL	513.21	37	10.44	1	27.90	4	361.80	20	82.06	8	214.66	18	217.51	23	4.16	1	1431.27	112

EU MEMBER STATES - CONTRIBUTIONS TO THE NIF TRUST FUND 2008 TO 2015

Country	Euros/million
Austria	3
Bulgaria	1
Czech Republic	2
Estonia	2.7
Finland	3
France	27
Germany	33
Greece	1
Italy	1
Luxembourg	1
Poland	3
Portugal	1
Romania	1
Spain	2
Sweden	1
Total amount*	82.7

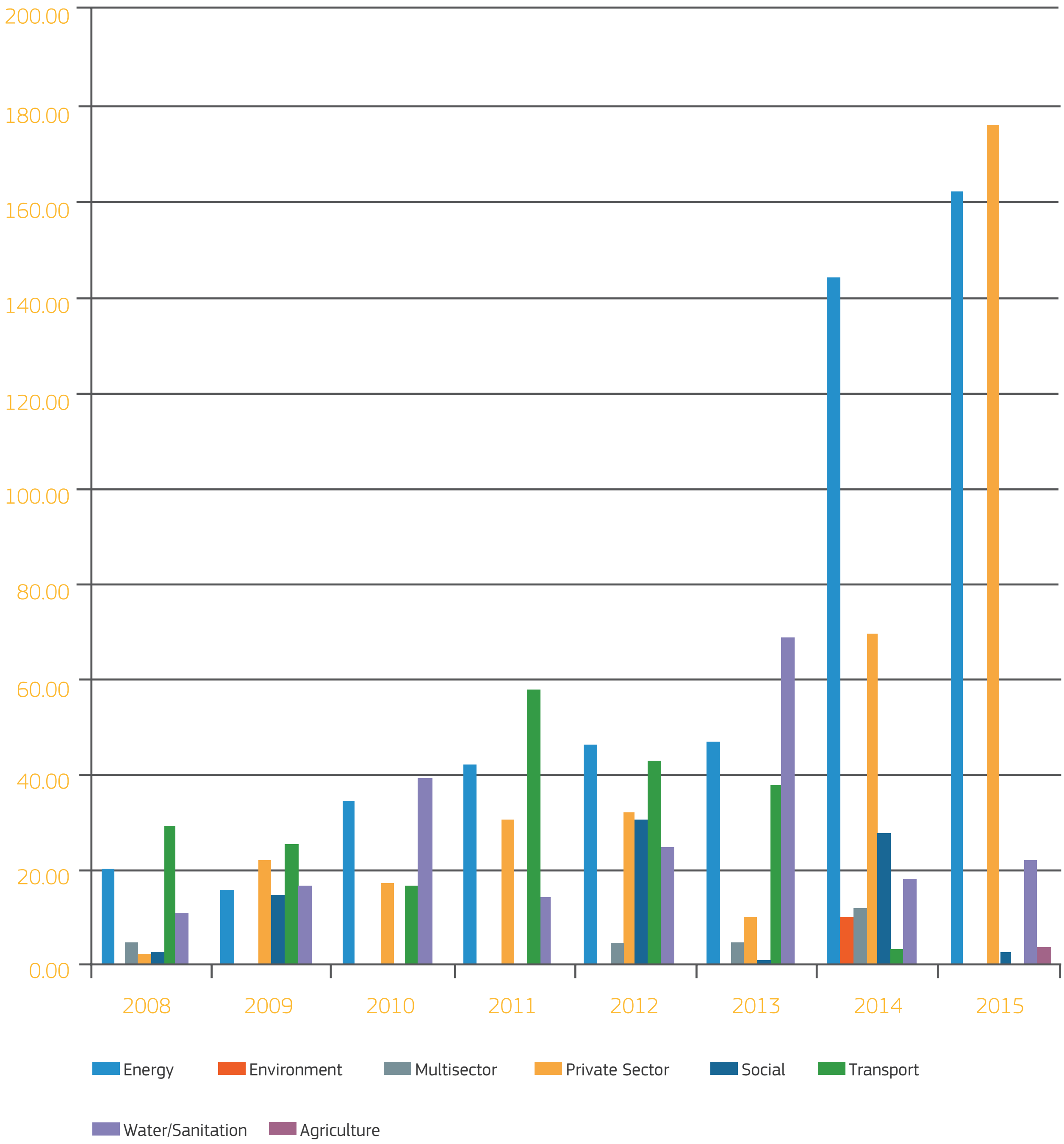
*As at 31/12/2015

NIF SOURCES OF FUNDING

Since it was set up in 2008, the NIF has provided support for 112 projects, drawing on a total of €1.431bn from the EU budget and the NIF Trust Fund.

The NIF Trust Fund allows EU Member States to complement the NIF resources provided from the general budget of the European Union. 15 EU Member States have committed a total of €82.7m to the NIF Trust Fund. Their contributions are managed by the European Investment Bank. The approval process follows the same NIF project appraisal and approval procedures

BY SECTOR IN MILLIONS OF EURO



NIF – Operations in 2015

The geographical allocation of the NIF grants in 2015 has been well balanced in terms of number of projects: 11 projects were approved in the Southern region and 9 projects in the East.

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OPERATIONAL OVERVIEW

In 2015, 20 projects in the Neighbourhood region received final approval from the Board for **a total NIF contribution of €367m**. This is well above the average yearly contribution from 2008 to 2014, around €152m, and is a clear indication of the attractiveness of the NIF.

The **geographical allocation** of the NIF grants in 2015 has been well balanced in terms of number of projects[2]: 11 projects were approved in the Southern region and 9 projects in the East. Of these, 2 projects each in the South and East are new phases of existing NIF-funded projects. In terms of the NIF contribution, about two thirds of the funds were awarded to projects in the Southern region (€250m or around 68%) and about a third to projects in the Eastern region (€117m or around 32%).

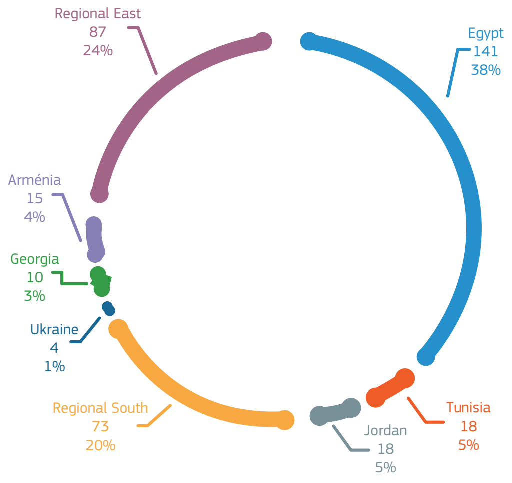
New projects were approved in **6 countries** last year: Armenia, €15m; Egypt, €141m; Georgia, €10m; Jordan, €18m; Tunisia, €18m; and Ukraine, €4m. These and other countries in the Neighbourhood will also benefit from several new regional projects that have been approved. The amount of NIF support awarded to regional projects also grew in 2015 compared to 2014, with regional projects accounting for €73m (29% of total) in the South, and €89m (74% of total) in the East.

With regard to **sector distribution**, the largest individual share of NIF support was granted to investments in private sector development (€176m or 48%). This was followed by energy projects with a total of €162m (44%) approved and water and sanitation projects (€22m or 6%). Support in the agricultural sector (€4m or 1%) and the social sector (€3m or 1%) complete the picture.

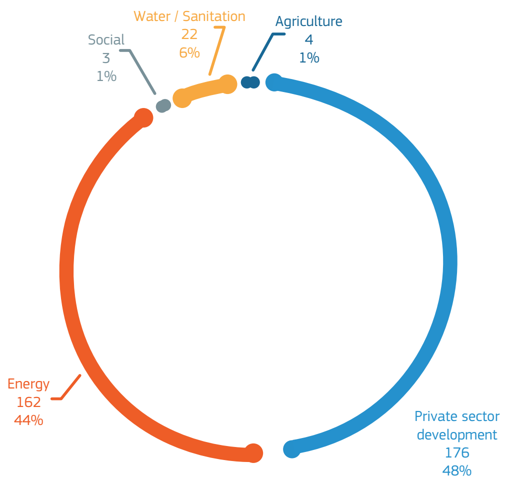
The **type of support** awarded by the NIF in 2015 focused mostly on investment grants (€154m, or 42% of NIF contributions), followed by guarantees (€131m, or 36% of NIF contributions) and contributions to equity (€31m, or 8%). These were frequently accompanied by technical assistance (€43m or 12%), including feasibility studies, project implementation units and works supervision. Fees amounted to €8m, or 2%.

The **financial leverage** effect of NIF contributions in 2015 was 1:6.9. In other words, for every euro provided by the NIF, €6.9 of lending or investment was mobilised from EFIs. Overall, €367m of NIF grants will leverage an estimated €2.17bn of loans from European Financial Institutions, which in turn are expected to lead to total investments in these projects of some €5bn, if the potential direct investment by sovereign and private-sector co-financiers is included.

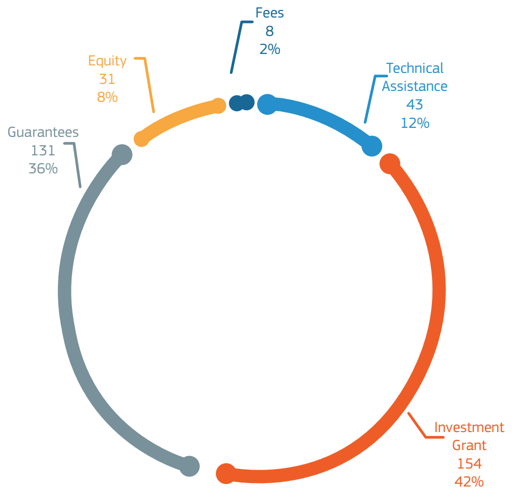
(2) Regional projects are NIF projects that benefit more than one country.



2015 NIF support by country/region in millions of euro



2015 NIF support by sector in millions of euro



2015 NIF support by type of support in millions of euro

NIF in the Southern **Neighbourhood**

The EU is supporting political and economic reform processes through bilateral and regional support programmes. It is also establishing Deep and Comprehensive Free Trade Areas in the region which promote gradual economic integration with the EU market.

The NIF focuses its support on what it does best: programmes for inclusive economic and social development and job creation; trade facilitation; drinking water, wastewater and irrigation; energy and renewables; and environmental protection.

EU cooperation with the **Southern Neighbourhood** region has been marked in recent years by the Arab Spring uprisings, which began in December 2010 and have been accompanied by **huge socio-economic challenges**. The EU is supporting political and economic reform processes through bilateral and regional support programmes. It is also establishing **Deep and Comprehensive Free Trade Areas** in the region which promote gradual economic integration with the EU market. These are most advanced with Morocco, Tunisia and Jordan, reflecting the depth and breadth of reform efforts in these countries.

The NIF focuses its support on what it does best: programmes for inclusive economic and social development and job creation; trade facilitation; drinking water, wastewater and irrigation; energy and renewables; and environmental protection.

The NIF contributes to key Union for the Mediterranean (UfM) initiatives and various other EU policies. The UfM, which was set up in 2008, aims to boost cooperation between the EU and Mediterranean partner countries (Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia and Turkey) and to encourage regional cooperation. Regional UfM projects address, for example, de-pollution of the Mediterranean Sea, creation of maritime and land highways, a joint civil protection programme, the establishment of a Mediterranean solar plan and a Euro-Mediterranean University, as well as support for entrepreneurship and business development for SMEs.

REGIONAL SUSTAINABLE ENERGY FINANCING FACILITY II (SEFF II)

NIF projects fit within broader EU policy objectives. One such project is the Regional Sustainable Energy Financing Facility II (SEFF II) to kick-start investment in green energy in Egypt and provide ecological incentives. Egypt has long stretches of windy coastlines, especially along the Red Sea, for wind power; it has also vast desert areas bathed in sunlight throughout the year that could make the country a solar powerhouse. Yet sustainable energy investments have not really taken off, largely due to the country's rich – if dwindling – fossil fuel resources. Energy has historically been highly subsidised for consumers and industry, leading to wasteful practices.

Today fuel and energy prices are gradually being brought in line with market rates, also to reduce energy consumption. However, adopting energy efficiency measures in production processes requires significant capital, as do new plants to produce renewable energy. Often commercial banks and strategic investors are daunted by technical aspects. Overcoming this hurdle is one of the main goals of the Regional Sustainable Energy Financing Facility (SEFF). The Facility's second phase focuses on Egypt, where it is extending at least €140m of credit lines to partner financial institutions, who will lend it on to householders and businesses in industrial, agricultural, commercial and residential sectors for energy efficiency and sustainable energy investments.

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The EU NIF contribution supports SEFF´s technical assistance to partner financial institutions so they can better assess the merits of sustainable energy investments and embrace Egypt's potential in this field. It also provides investment incentives to partner institutions and their borrowers to encourage early adoption of sustainable energy technologies.

KAFR EL SHEIKH WASTEWATER TREATMENT PLANTS

This project involves building 2 new wastewater treatment plants, expanding three existing plants, laying 697 km of sewers, and installing 52 pumping stations in the Kafr el Sheikh Governorate. It is a priority project under the EC-led Horizon 2020 initiative to reduce pollution of the Mediterranean Sea from municipal waste, urban waste water and industrial pollution.

The project aims to improve health standards for residents, the quality of irrigation water, as well as the environmental quality of the Nile, Lake Burullus, and the Mediterranean Sea. It will provide sanitation services to approximately half a million consumers for the first time. Indirect benefits include an expected increase in the volume and quality of fish in Lake Burullus (70% of the country's fishing industry), safer agriculture production, improved conditions for tourism on the Mediterranean coast and job creation.

EU cooperation with the Southern Neighbourhood region has been marked in recent years by the Arab Spring uprisings, which began in December 2010 and have been accompanied by huge socio-economic challenges.

SOUTHERN AND EASTERN MEDITERRANEAN

Regional Sustainable Energy Financing Facility II (SEFF, phase II)

Following successes in Jordan and Morocco in phase I, SEFF II is now kick-starting investment in green energy in Egypt and giving early adopters added incentives.

Egypt is blessed with many opportunities for producing sustainable energy: long stretches of windy coastlines, especially along the Red Sea, for wind power; and vast desert areas bathed in sunlight throughout the year that could make the country a solar powerhouse. Yet sustainable energy investments haven't taken off, largely due to the country's rich – if dwindling – fossil fuel resources. For decades, local oil and gas production more than satisfied domestic demand and energy was highly subsidised for consumers and industry, leading to wasteful practices.

However, change is in the air: oil, though not gas, reserves are running low. Fuel and energy prices are gradually being brought in line with market rates, strengthening the case for efficiency gains in Egypt's energy-intensive industries. The government aims to reduce energy consumption by 20% between 2010 and 2022, and regulatory reforms are promoting sustainable energy projects largely driven by the private sector. National strategies are closely aligned with EU policy objectives on climate change mitigation and reduction of greenhouse gas emissions.

Energy efficiency measures in production processes generally require significant capital; so do new plants to produce renewable energy. Often the financial institutions and strategic investors who finance such investments are daunted by technical aspects. Overcoming this obstacle is one of the main goals of the Regional Sustainable Energy Financing Facility (SEFF). In Egypt, it will be extending at least €140 million of credit to partner financial institutions, who will lend it on to householders and businesses for energy efficiency and sustainable energy investments.

SEFF II, a joint action between EBRD (lead financier), AFD and EIB, also provides technical assistance to partner financial institutions so they can better assess the merits of sustainable energy investments and embrace Egypt's potential in this field. The EU NIF contribution supports technical assistance and provides investment incentives to partner institutions and their borrowers to encourage early adoption of sustainable energy technologies, which, in the short term, often appear more costly than traditional technologies. This grant, limited to 15% of the loan value, is to increase uptake significantly and demonstrate the benefits of energy innovation.

SEFF II will also work with Chambers of Commerce, associations and providers of technologies and services related to energy efficiency and renewable energy production helping them to cope with increased demand and to encourage the development of a vibrant, innovative local energy sector.

All aspects are considered that are needed to create a dynamic clean energy market - finance, know-how and, crucially, the NIF's early-adopter incentives. Thanks to SEFF II, businesses and residents are supported in reducing their energy bills and contribute to a healthier environment; and energy producers will emerge to tap the power of Egypt's wind and sun.

Energy – Egypt (part of Regional South programme)

Total cost: € 180.6m

NIF grant: €20.3m Investment Incentives, plus €3.0m technical assistance

Financial institutions: EBRD (Lead), AFD and EIB for a total of €140m; EBRD additional €3.3m in technical assistance.

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Energy – Egypt

Total cost: € 1,710m

NIF grant: €68.0m (€60.0m for investment grant and €8.0m for technical assistance)

Lead Financial Institution: AFD with €70m

Co-financing institution: World Bank with €370.0m, Kuwait Fund for Arab Economic Development with €44.0m

EGAS own contribution: €750m

EGYPT NATURAL GAS CONNECTION PROJECT

Pro-poor access to the natural gas network, replacing imported bottled gas, while facilitating gas sector reforms to increase energy security, improve quality of service, cut public costs and attract investments.

Egypt has long been a major producer of natural gas, and efforts are underway to intensify exploration and extraction to meet growing demand especially for electricity and industrial production. Until now, however, many residential customers have used imported bottled gas rather than domestically-produced mains gas, despite the increased hazards and higher environmental cost associated with bottled gas. Three main reasons explain this: connections were rarely available outside major cities; connection charges were costly, especially for poorer households; and fuel subsidies, particularly high for bottled gas, made this an economically sensible option.

A strong and resilient gas sector is vital to Egypt's energy security, as well as to its economy. The Government of Egypt is engaged in sector reforms to progressively remove price distortions and make the sector more competitive, transparent and sustainable. In parallel, it has launched a major campaign to connect 17 million households to the natural gas network by 2030, roughly 800 000 connections a year.

The EU is supporting Egypt's reform efforts and the Egypt Natural Gas Connection project provides a huge boost to the connection campaign. The project blends loans from the Agence Française de Développement (AFD, lead financial institution), World Bank and Kuwait Fund for Arab Economic Development, with grants from the NIF, to connect 2.4 million households in 11 predominantly rural governorates over a 4-year period. Egypt's own commitment to the initiative is evident, with a contribution to total project costs of almost 50%.

The bulk of the NIF grant will be used to fund discounts on initial connection charges for poor and disadvantaged families, cutting the cost to them by about half. The targeting methodology is based on extensive field research and willingness to pay surveys, and checks are in place to ensure only needy families can access these discounts.

NIF funds will also be used to strengthen the Egyptian Natural Gas Holding Company (EGAS) by introducing an Enterprise Resource Planning (ERP) system to improve financial management and transparency and advanced modelling tools to help forecast production and demand. The NIF grant also supports further institutional reforms, including the establishment of a gas regulator.

The overall aim is to improve access to safer, more reliable and better quality energy services while increasing Egypt's energy security and alleviating the strain on public finances. Investment by AFD and their partners enables EGAS to meet its ambitious roll-out targets, while the NIF funding also adds an important pro-poor dimension to the initiative.

An efficiently managed gas sector and reduced energy subsidies will allow the Government to allocate more of its resources to improving vital public services. Businesses will benefit from a more reliable, better quality service. Finally, people living in areas previously not served by mains gas will enjoy a safer, more environmentally friendly source of energy, with up-front charges affordable even for poorer households thanks to the NIF.

200 MW WIND FARM PROJECT GULF OF SUEZ

The 200 MW wind farm in the Gulf of Suez will harness wind-power to help secure energy supplies by producing electricity that is economically viable and environmentally sustainable.

The Egyptian energy sector faces considerable challenges: oil reserves are running low; gas is a valuable export revenue earner; and power plants do not always receive the fuel supplies they need. Moreover, investments in electricity generation have failed to keep up with increasing demand, and many old plants are poorly maintained and inefficient. Demand for energy has increased, from both industry and consumers, and blackouts have become more frequent, particularly during summer months when cheap imported air-conditioners, now affordable for many urban Egyptians, are on full blast.

If outages make life sticky for people and cause them to doubt the state's capacity to deliver public services, it has disastrous consequences for Egypt's energy-intensive industries, with knock-on effects for industrial output and economic growth. The energy sector, largely ignored in the round of government investments following the 2011 revolution, has now become a major focus of attention for the Egyptian Government.

A comprehensive new energy strategy has been drawn up to increase Egypt's electricity generating capacity using gas, coal and renewable energies, and to enact reforms to improve governance in the sector. Renewables are centre-stage: Egypt has a phenomenal potential for producing clean energy from wind and solar power, yet renewables account for only 1% of total installed capacity. The restructured New and Renewable Energy Authority (NREA) is working increasingly with private sector partners to meet the government's goal of producing at least 20% of its energy from renewable sources 20% by 2022.

One major NREA project contributing to this goal is the Gulf of Suez Wind Farm, which is being built with loans from KfW, EIB and AFD, and an investment grant from the EU NIF. The EU is keen to support the project, which is closely aligned with NIF strategic orientations and EU Neighbourhood and climate change mitigation policies. The EU is also committed to supporting Egypt in implementing energy sector reforms.

The wind farm on the west coast of the Red Sea in Egypt, about 150 km north of Hurghada, will have an installed capacity of at least 200 MW and to generate at least 650 GWh per annum, enough to cover the electricity needs of about 370 000 consumers. This equates to 289 955t less $CO2$ entering the atmosphere every year. Strict environmental standards will be adhered to, protecting migratory birds in particular.

One of the reasons for the relatively low share of clean energy in Egypt is that, despite technology costs coming down, it is still more expensive to produce electricity from renewables than from fossil fuels. Additionally, few large-scale projects are up and running, so many potential investors are unaware of its viability and economies of scale cannot be realised. The NIF grant reduces construction and supervision costs significantly, in the hope that the Gulf of Suez Wind Farm will become a model for national and international investors to replicate in other windy coastal areas in Egypt, keeping the lights on, and the air-conditioners, in places that are not so lucky.

Energy – Egypt

Total cost: €344.0m

NIF grant: up to €30.0m
for investment grant

Lead Financial Institution:
KfW with €72.0m

Co-financing institution:
EIB with €115.0m, AFD with €50.0m

NREA own contribution: €77.0m

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Energy – Tunisia

Total cost: €133.2m

NIF grant: € 13.2m

Lead Financial Institution: AFD (AFD and co-financiers: €100m)

Co-financing institutions: EBRD and EIB

Own contribution: €20m

SUSTAINABLE USE OF NATURAL RESOURCES AND ENERGY FINANCING IN TUNISIA (SUNREF TUNISIA FACILITY)

Generating a virtuous circle of sustainable green financing through measures to support both supply and demand of energy- and environment-related investments in small and medium-sized enterprises in Tunisia.

The new millennium marked a crucial turning point for Tunisia's energy sector. Before 2000, low energy consumption and strong oil and gas production made the country a net exporter of energy; after it, increasing demand out-paced supply, and imports were needed to meet energy needs. As imports grew, so did government subsidies, putting intense pressure on public spending. Social, economic and environmental concerns underpin Tunisia's drive to rationalise energy use, particularly in the industrial sector, and to move towards clean energy production.

In 2011 came another turning point, the Tunisian Revolution, arguably the most successful Arab Spring uprising. Tunisia's political transition has been remarkably steady, but economic activity has been slow and fragile, pushing tax revenues down and unemployment up. Spill-over from conflicts elsewhere in the region, and a few isolated, but high-profile, attacks on tourist facilities, have had a devastating effect on tourism, a prime source of foreign income, at a time when reserves are particularly low.

Small and medium-sized enterprises (SMEs), the backbone of Tunisia's industrial sector, are crucial for future wealth and job creation. They can also play a pivotal role in rationalising energy use and improving energy security, by reducing consumption, increasing efficiency and transitioning to clean energy. To date, however, low levels of liquidity, poor access to affordable credit and lack of technical expertise have made SMEs reluctant to travel this path.

SUNREF Tunisia, led by AFD and with EBRD and EIB as co-financiers, addresses precisely these dysfunctions. The Facility makes available to partner financial institutions in Tunisia €100m for lending on to SMEs for investments in energy efficiency, renewable energy, cleaner production and pollution abatement. Complementing the credit facility is a technical assistance programme, managed together with the two national energy and environmental agencies: L'Agence Nationale pour la Maîtrise de l'Energie (ANME) and L'Agence Nationale pour la Protection de l'Environnement (ANPE).

The technical assistance component, funded by the NIF, will increase partner institutions' understanding of green financing and the opportunities it brings, strengthening their capacity to assess the merits of individual projects and encouraging them to promote green lending products to their SME clients. It will also work with government initiatives to develop communication campaigns targeting SMEs to promote energy efficiency, renewable energies and pollution abatement. As a further incentive to SMEs, the NIF is providing investment grants for approved projects that reduce the overall cost by an average of 11%. This combination of targeted interventions is likely to raise demand for green finance and produce a sizeable number of SME success stories, generating a virtuous circle of sustainable green financing without introducing market distortions.

SUNREF Tunisia supports EU Neighbourhood and NIF goals to address common environmental threats, promote equitable socio-economic development by strengthening SMEs in particular, and encourage the emergence of an efficient and competitive private financial market. These coincide with national objectives to promote economic development and improve energy security. Rational energy use means that resources currently allocated to wasteful energy subsidies can be used to improve the wellbeing of the Tunisian people, which ultimately will guarantee the country's peace and stability.

CENTRALE PHOTOVOLTAÏQUE TOZEUR

Tunisia's first solar power plant will help cover the energy needs of households and public buildings as well as mitigating climate change.

Tunisia's energy sector is facing many challenges: domestic production of oil and gas has failed to keep up with growing demand for electricity and the gap is widening. Between 2009 and 2013 energy imports increased by about 45%. Historically, in Tunisia as in many other oil producing nations, energy tariffs have been heavily subsidised. Now that much of the country's energy is imported, energy subsidies weigh heavily on the public purse. However, it is politically challenging to bring prices up to market rates, particularly in a fragile economic environment and with social vulnerability in the aftermath of the 2011 Tunisian Revolution.

With strong winds in the north of the country and strong sunshine everywhere, Tunisia has a huge potential for renewable energy. Renewables could also create many new jobs. Yet in 2013 renewables accounted for only 3% of the electricity produced and very few jobs. In its 2012 Tunisian Solar Plan, the government set a target of 30% of electricity produced from renewables by the year 2030, recognising the strategic social, economic and political benefits of renewable energy production. The Plan is linked to the Mediterranean Solar Plan developed by the EU and 15 countries in its Southern Neighbourhood, which together make up the Union for the Mediterranean. Energy cooperation enhances the energy security of both the EU and its southern neighbours and is one of the priorities of the EU-Tunisia Action Plan, agreed in 2012.

While technology costs are falling as uptake increases, solar power is still more expensive than producing electricity from natural gas, which Tunisia's Société Tunisienne de l'Electricité et du Gaz (STEG) has successfully exploited for many years. Investments needed for large-scale solar production facilities are also beyond the means of local investors.

STEG identified Tozeur, some 400km south of the capital, as an ideal site for Tunisia's first large-scale photovoltaic plant, with an installed capacity of 10 MWp. The company secured investment capital for the plant from KfW. Given the strategic importance of the project to EU-Tunisia cooperation, KfW approached the EU NIF for an investment grant to help bridge the financing gap and make renewable technologies a more financially viable alternative to natural gas in the short term. As well as providing investment capital, German Cooperation set aside a grant of €0.5m to provide guidance on designing, procuring and managing construction works, as well as ongoing operation of the plant. Transfer of know-how is seen as key to guaranteeing the success of the project and its long-term sustainability.

Construction works for the project are scheduled to start in the second half of 2016. Once it goes into service the Tozeur plant will provide clean energy to around 8 000 households, reducing CO2 emissions and improving Tunisia's energy security and socio-economic conditions. It will also help create sustainable local jobs in an area otherwise lacking in economic opportunities. Finally, thanks to the EU NIF contribution, Tozeur can become a successful model for further expansion of renewable energy production in Tunisia, bringing benefits to countries north and south of the Mediterranean.

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Energy – Tunisia

Total cost: €16.0m

NIF grant: €1.5

Lead Financial Institution:
KfW with up to €11.5m in loans and €0.5m in technical assistance

Co-financing institutions: none

Own contribution: approx. €2.5m

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Energy – Jordan

Total cost: 146.28m

NIF grant: €17.35m (€14.35m in investment grant and €3.0m in technical assistance). €1.2m was granted in 2010 for technical assistance in project preparation

Lead Financial Institution: EIB with €65.89m

Co-financing institution: AFD €50.3m

NEPCO own contribution: €11.54m

NEPCO GREEN CORRIDOR

Investing in upgrading Jordan's electricity transmission network allows renewable energy production to be integrated and improves Jordan's energy security as well as overall reliability of energy supply.

Jordan's fossil fuel reserves are dwarfed by those of its neighbours, although recent exploration suggests natural gas may be more abundant than previously thought and oil shale may be viably exploited. Nuclear energy has also been explored, but the situation today is not radically different from decades ago: Jordan relies on imports for 97% of its energy needs. Electricity is produced by NEPCO, Jordan's national energy utility, mostly using natural gas supplied by Egypt. Political instability and civil unrest in the region, including terrorist attacks on gas pipelines, have caused disruptions to supply. Alternative fossil fuels sourced quickly and at premium prices are often more CO2 intensive than natural gas.

Domestic demand for electricity has been rising rapidly, exacerbated by the influx of around a million Syrian refugees (UNHCR 2015). Energy imports account for around 40% of the national budget, and energy subsidies, reintroduced in 2011 to head off local unrest like that seen elsewhere in the region, weigh heavily on the public purse. Subsidies are being reduced, but the government is naturally cautious about hiking electricity prices at a time of regional economic and political uncertainty.

There is no quick fix for Jordan's energy challenges, but renewables are an important part of the long-term solution. Jordan's National Energy Strategy (NES) 2007-2020 envisages 10% of the total energy mix coming from renewables by 2020. An increasing number of solar power plants are being built in the south of the country and some wind farms are operating in the north. However, the electricity generated needs to feed into the national grid efficiently and seamlessly, and the current north-south transmission lines need major upgrading in order to achieve this.

The NEPCO green corridor complements the 400 kV Qatrana - Amman West - Samra transmission line that NEPCO is currently building, extending it southward. Two new transmission lines (400 kV and 132 kV) will be installed, one new electricity substation (400/132 kV, 800 MVA, expandable to 1200 MVA) will be built and a further two substations (400 kV and 132 kV) will be upgraded. A feasibility study for the project was funded by an EU NIF grant, and a NIF-funded technical assistance team will manage the implementation process. The investment reinforces the network in central Jordan's desert areas, where opportunities for renewable energy production are greatest.

The bulk of investment capital for the project comes from European lenders, with EIB as Lead Financial Institution and AFD as co-financier. NEPCO's disastrous finances and the country's precarious economy precluded an investment of this entity by the Jordanian government, which was hesitant even to consider a loan. The EU NIF investment grant and technical assistance was a decisive factor in their moving forward with this vital project.

A modern, efficient transmission infrastructure is crucial to increasing production of renewable energy in Jordan, which in turn will help reduce the country's dependence on energy imports. Jordan's public finances and its citizens will benefit from locally-produced energy at reasonable prices, while decreasing CO2 emissions. The NEPCO green corridor supports NES objectives and the EU-Jordan Action Plan, which includes energy and climate challenges as key priorities for action, and is likely to spur further investments in renewable energy in Jordan.

KAFR EL SHEIKH WASTEWATER EXPANSION (KESWE) – PHASE II

The expansion of wastewater treatment in Kafr El Sheikh Governorate will improve the health of residents, the quality of drinking and irrigation water and the environmental integrity of the Nile and Lake Burullus.

"Ten thousand thousand fingers are washed in the Nile flood, ten thousand thousand grapes and olives are fed by living water." This excerpt from the Egyptian Book of the Dead, a funerary text from about 1000BC, illustrates Egypt's dependence - now as then - on the River Nile. Almost all of Egypt's 90 million people live near the Nile or in its Delta and depend on it for drinking, washing, farming, fishing, transport and recreation.

Water and sanitation are a key priority for the Egyptian government, one that the EU and other donors have supported over the years. Reforms in the 1990 aimed to make the water sector more efficient and responsive to the needs of a growing population in increasingly concentrated urban and rural settings. Since 2004 costs have been partially recouped from water users to fund maintenance and investment, although raising water tariffs is problematic in the current political, social and economic climate. Service levels and water quality have improved in some areas, but coverage is far from universal. The government's National Master Plan for Water Supply and Sanitation targets 2037 for full coverage.

Kafr El Sheikh (KES) is a governorate in the Nile Delta, where agriculture, fishing and services provide sustenance to around 3 million residents. Almost half of KES households are not connected to public sewage networks, using instead septic tanks or cesspits that often leak into groundwater, creating a public health hazard. Lake Burullus, one of five brackish coastal lakes in the Delta, receives 97% of its water from agricultural run-off. Its wetlands act as a natural filter before depositing water in the Mediterranean, partially cleansed of chemical and organic waste. It is a pollution hotspot for the EU-funded Horizon 2020 initiative to depollute the Mediterranean Sea.

The seven-year Kafr El Sheikh Wastewater Expansion project will connect almost half a million KES residents to the sewage network using 694 km of new pipes. It will create local jobs, protect groundwater and reduce the pollution flowing into Lake Burullus. Two new wastewater treatment plants will be built, another three upgraded, and 52 pumping stations will be brought into service. Technical assistance will provide guidance to Egyptian counterparts, while guaranteeing transparent and efficient project procurement and implementation. The project strengthens ongoing efforts to improve solid waste management and reduce chemical and agricultural discharge into the Nile and coastal lakes.

The investment is financed largely by EIB and EBRD, with contributions from the Government of Egypt and the EU NIF. It responds to the health and economic needs of Egyptians, financial constraints of the government and priority actions set out in the EU-Egypt Action Plan. Expected climate change mitigation benefits also support EU Neighbourhood and Union for the Mediterranean objectives.

Given Egypt's current economic climate, this project would not have been feasible without the EU NIF contribution. It brings down the cost to Egypt, mobilises significant private capital, and helps strengthen Egyptian institutions so they are better able to manage future projects. Improved services are expected to improve collection rates and revenue streams, making the sector more financially sustainable. More fundamentally, the project will improve the quality of life and protect the health and livelihoods of Kafr El Sheikh residents as reliant today as 3000 years ago on the gift of the Nile.

Water and Sanitation – Egypt

Total cost: €181.0m

NIF grant: €17.0m for investment grant (in addition to 2013 NIF contribution of €15m)

Lead Financial Institution: EIB with €77.0m

Other: EBRD with €55.0m

Own contribution: €17.0m

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Social Sector - Tunisia

Total cost: €28.4m

NIF grant: €3m for technical assistance

Lead Financial Institution: AFD €24.7m (€24m investment grant and €0.7m for technical assistance)

Own contribution: €0.7m

PROGRAMME OF SUPPORT FOR TRAINING AND EMPLOYABILITY (PAFIP)

Supporting reform of the national system of vocational training will help young graduates enter the job market and find good long-term employment opportunities.

Over half of the Tunisian population is under 30. An abundance of young people can be a double-edged sword: on one hand the potential for creativity, productivity and long-term socio-economic development is huge; on the other, unemployed or under-employed youth can be highly destabilising to society.

Tunisia's well educated youth face major difficulties entering the job market: youth unemployment is around 40% and 34% of graduates are jobless. Unemployment often means putting off getting married and having a family indefinitely, and can be socially alienating as well as economically crippling. Thwarted aspirations may have been a factor in the unrest that led to the Tunisian Revolution, and also, worryingly, in an estimated 3 000 Tunisians travelling to Syria in 2014 to join Daesh/ISIL.

The Tunisian government began reforming the vocational training system as early as 1996, recognising the need to align the skills of jobseekers with the local economy's capacity to create employment. A healthy system must also include social partners such as trade unions and employers' associations. Today, this need is greater than ever, with local and regional instability severely curtailing the Tunisian economy and stretching public finances.

The Programme of Support for Training and Employability (PAFIP), financed by AFD and with EU NIF support, is helping Tunisia's Ministère de la Formation Professionnelle et de l'Emploi (MFPE) to take a tangible step forward in improving the quality, relevance and efficiency of vocational training in Tunisia. PAFIP will focus on piloting key reforms in 17 training centres in different parts of the country. The centres are concentrated in 4 areas where thriving businesses in strategic industrial and service sectors can absorb large numbers of students once they complete their training. 16 existing centres will be extensively renovated and another, in Bizerte, will be built from scratch as a centre of excellence for the agri-food sector.

Technical assistance, funded by the NIF contribution, will enable qualitative improvements in the training curricula and in the workforce delivering it. Support will be given to the Tunisian vocational teacher training body, CENAFFIF, to develop and roll out advanced training-of-trainers modules, certification and updated curricula for 25 industrial specialisations.

NIF involvement in PAFIP is in line with EU-Tunisia Action Plan priorities and EU support to Tunisia under the SPRING (Support for Partnership, Reforms and Inclusive Growth) programme. The current Single Support Framework for EU assistance to Tunisia (2014-2016) also identifies socio-economic reforms for inclusive growth, competitiveness and integration as a top priority.

PAFIP will enable the Tunisian government to engage with all relevant economic and social actors, locally and nationally, to build forward-looking operational partnerships. Tunisia is creating a vocational training system that anticipates market needs and gives students relevant technical skills that they and their future employers need. The NIF is helping scale up the roll-out of sector reforms that will lead to higher levels of employment and social inclusion, and a more stable and prosperous future for Tunisians.

RISK CAPITAL FACILITY FOR THE EU'S SOUTHERN NEIGHBOURHOOD COUNTRIES (SECOND TRANCHE)

A dedicated facility for Small and Medium-sized Enterprises (SMEs) to improve access to finance, leading to higher levels of employment and contributing to poverty alleviation and sustainable growth.

While levels of income and human development vary in the EU's Southern Neighbourhood, the countries share important characteristics: large youth populations and high youth unemployment; low levels of private investment and low growth compared to other emerging markets; economies shaken first by the global financial crisis, and then by the political turmoil of the Arab Spring.

SMEs in the Southern Neighbourhood make up over 85% of registered companies, account for around 60% of GDP, and provide over two-thirds of formal jobs. Given adequate support, SMEs could be a motor to drive economic growth up and unemployment down. However, limited access to finance has constrained SMEs' capacity to grow their businesses, with private lenders in particular reluctant to engage with them. State banks do cater to some SMEs, but only 20% have credit lines open, and 9 times out of 10 SMEs have to fund their own investments.

Micro-finance, which has helped fill the gap in other emerging markets, has been slow to take off in the region due to a complex regulatory environment and limited product offerings. Private equity is much less active than in other emerging economies, and in any case has tended to favour larger companies and high-tech businesses, rather than SMEs. Private equity slowed down globally following the financial crisis and the region was harder hit than others due to recent political instability.

in line with EU Neighbourhood policy, the Risk Capital Facility aims to encourage strong, inclusive, private sector-led growth and job creation, by extending finance to micro, small and medium-sized enterprises. The European Investment Bank (EIB), whose regional experience includes the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), is the Risk Capital Facility's lead financial institution.

The Facility is designed to leverage significant amounts of third-party finance by using its own resources to match private investments euro for euro. It will invest in private equity and venture capital funds, co-invest alongside business angels, invest in and/or lend to micro-finance and other financial institutions, and consider innovative arrangements, such as funding business incubators and accelerators.

Technical assistance will provide financial institutions and SMEs with tailored risk assessment and management expertise to minimise defaults, ensuring good returns for all parties and the Facility's financial sustainability.

The NIF's contribution to the Facility is a major determinant in making private sector investors take on new risks in a sector – SMEs – that they have largely avoided until now. The EU NIF grant effectively underwrites investments by guaranteeing to cover first losses of up to 33%, which significantly reduces the risk for private investors and makes investments in SMEs in the region a lot more appealing.

98 000 SMEs are expected to access resources through the Facility, securing over 620 000 jobs, many of them for women. Stronger businesses will drive faster, more inclusive economic growth. More men and women in good, long-term jobs will be able to thrive, with their families, in more prosperous and stable societies.

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Private Sector – Regional South

(Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia)

Total cost: €145m

NIF grant: €25m for risk capital (second tranche - first tranche of €25m approved in 2014)

Lead Financial Institution: EIB with €47.5m

Other funding: €47.5m expected from third-party investors

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Private Sector - Regional South (Egypt, Jordan, Morocco, Tunisia)

Total cost:
€178m (final total envisaged: €353.7m)

NIF grant:
€27.0m (final total envisaged: €50m in risk sharing grant; €3.7m in technical assistance)

Lead Financial Institution:
EBRD with €75m

Co-investors:
public and private investors for €75m

Financial intermediaries:
local banks, leasing companies and MFIs

PROGRAMME FOR THE SOUTH AND EAST MEDITERRANEAN (SEMED) REGION ON MICRO, SMALL AND MEDIUM-SIZED ENTERPRISE (MSME) FINANCIAL INCLUSION (PHASE I)

A comprehensive financial inclusion package to support micro-, small and medium-sized enterprises, enabling them to drive sustained and inclusive economic growth.

The SEMED region comprises Egypt, Jordan, Morocco and Tunisia, countries with a range of income and human development levels, but with many common challenges. All are feeling the aftershocks of the Arab Spring, which damaged the regional economy and put severe pressure on public finances. All are looking beyond current challenges and aiming for sustained, inclusive, private sector-led growth.

Privately-owned micro-, small and medium-sized enterprises (MSMEs) are likely to drive growth in the four SEMED countries, where they generate between 40% and 80% of GDP and create from 40% to 75% of total jobs, both skilled and unskilled. With adequate capital, many MSMEs could invest in their businesses, innovate and take advantage of market opportunities, as well as managing cash-flow and reducing risk. Growing businesses could create more wealth and employ more workers.

However, access to financial services remains low in the region, and is often limited to the wealthy few. Under 10% of MSMEs in the SEMED region are adequately served. Micro-finance has grown in the last decade or so, but commercial banks have little experience with MSMEs and are not always able or inclined to meet their needs. Moreover, recent regional political and economic instability has weakened the business environment, increased currency fluctuations and reduced available capital for investment.

The main component of the SEMED MSME Financial Inclusion Programme is a credit line facility for partner financial institutions for lending on to MSMEs. The EBRD's investment of €75m, together with the EU NIF's risk sharing grant of €50m, is expected to leverage another €135m, making a total of €260m available for MSME loans. Much of this leveraging power derives from the NIF risk sharing grant, which will cover the first 25% of total losses. The NIF grant covers both non-repayment of loans and currency fluctuations, reducing risk and encouraging investment by European investors and local partner financial institutions. Their risk sharing structure is designed to incentivise loans to MSMEs perceived as higher risk because they are located outside the capital or managed by a woman.

Supporting the facility and longer-term improvements in financial inclusion in the SEMED region are two technical assistance components: one to improve partner financial institutions' understanding of the MSME sector and their capacity to serve it well and profitably; and another to extend policy dialogue to promote institutional and regulatory reforms that improve financial inclusion, particularly of MSMEs.

The SEMED MSME Financial Inclusion Programme lays the foundations to enable MSMEs to contribute to sustained economic growth, poverty reduction, social inclusion and increased opportunities for women. It supports national goals, as well as EU Neighbourhood policy objectives and the NIF strategic objective of "Promoting smart, sustainable and inclusive growth, in particular through support to small and medium-sized enterprises". It complements, without duplicating, other pro-MSME initiatives, such as the EBRD's Small Business Support (SBS) assistance to increase financial literacy and competitiveness.

The programme is a comprehensive package to support MSMEs in the short, medium and long term, so they can achieve their potential of driving sustained and inclusive economic growth, leading to increased prosperity, stability and peace in the SEMED region.

SANAD MENA FUND FOR MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES - PHASE II

A dedicated fund for micro-, small and medium-sized enterprises is tackling two of the region's biggest challenges – high youth unemployment and untapped entrepreneurial potential.

Egypt, Lebanon, Jordan, Morocco, Palestinian Territories and Tunisia are a diverse group of countries that share a number of challenges. Some struggle with low literacy rates, gender disparity and a gaping rural-urban divide while others have made significant improvements in these areas. All have experienced an economic downturn in the turmoil following the Arab Spring, with soaring unemployment, especially among youth, and stretched public finances. Private capital, historically low in the region, has become even more scarce.

Micro-, small and medium-sized enterprises (MSMEs) in the region account for over 85% of all registered companies, contribute to over two-thirds of total employment, and generate around 60% of the region's GDP. Governments increasingly recognise the primary role of MSMEs in driving future growth, innovation and competiveness and have initiated support programmes to boost MSME sector development. However, very few MSMEs today have access to financing to expand, become more competitive, and create more jobs and wealth.

SANAD, the Arabic word for 'support', is a dedicated fund to boost lending to MSMEs, led by German development bank, KfW, and supported by German Cooperation as well as the EU. It was established in August 2011 to make up for shortfalls in medium- and long-term financing and local currency lending. It works with local partner financial intermediaries to improve their understanding of the MSME sector, so they can grasp the many opportunities the sector provides.

The fund offers local financial institutions, including commercial banks, micro-finance institutions and leasing companies, a comprehensive set of products and instruments, including loans, subordinated debt, guarantees and equity. SANAD is unique in offering local currency loans at a time when currency fluctuations add considerable risk for local financial institutions taking on foreign loans.

Knowing your customer personally is a common theme in regional business practice, which perhaps explains why financial institutions have tended to concentrate on a few wealthy individuals and big businesses. Banks have very limited experience with MSMEs and are reluctant to offer them credit. SANAD's technical assistance facility, supported by the NIF, bridges the knowledge gap and provides banks and MFIs with tools and experience in appraising and managing loans to smaller businesses.

At the end of 2015, the Fund had committed investments of USD 167.3m and was working with 19 institutions in 6 countries, providing loans to over 60 000 end-borrowers. By the end of 2017, SANAD expects to reach over 90 000 MSMEs, enabling them to create 30 000 jobs and sustain 110 000 more, many of them for women and young people.

The EU NIF and German Cooperation hold shares in SANAD that provide first loss cover for projects that are perceived to have a higher risk profile and otherwise would not attract commercial investors. Their shareholding raises confidence in the MSME sector and lowers risk for other investors, enabling the fund to leverage significantly more financial resources from private investors to lend on to MSMEs.

Ultimately, SANAD's aim is to develop sustainable and responsive financial markets in the region. The fund has been profitable since late 2013. MSMEs should find it increasingly easy to grow their businesses and contribute to inclusive economic growth, job creation and poverty reduction, goals that align perfectly with EU NIF strategic priorities.

Private Sector - Regional South: Egypt, Lebanon, Jordan, Morocco, Palestinian Territories, Tunisia

Total cost: €103.4m

NIF grant: €20m for risk capital

Lead Financial Institution:
KfW with €13m

Other funding: €70.4m (other donors, IFIs and private financing)

NIF in the Eastern **Neighbourhood**

2015 was a year of major political challenges in the EU's Eastern Neighbourhood. The simmering war in Ukraine and increased pressure from Russia on other partner countries exacerbated political challenges in the region.

2015 was a year of major political challenges in the EU's Eastern Neighbourhood. The simmering war in Ukraine and increased pressure from Russia on other partner countries exacerbated political challenges in the region. The Eastern Partnership (EaP) therefore continues to be a priority for the EU. At the Eastern Partnership Summit in Riga, on 21 and 22 May 2015, the Heads of State of the six Eastern Neighbourhood countries and of the EU reviewed the cooperation and provided the direction for further joint action.

Supporting the Eastern Partnership, adding substance and providing visibility and momentum, are a number of political and technical dialogues on various platforms on issues such as integrated border management, SMEs, regional energy markets and energy efficiency, environmental management and civil protection. Revised Association Agreements with Georgia, the Republic of Moldova and Ukraine include provisions for a Deep and Comprehensive Free Trade Area (DCFTA) and put in place the most ambitious contractual relations ever with Neighbourhood partners. These will provide a strengthened policy framework for the coming years.

The NIF supports both EaP-wide initiatives and partners' individual priorities linked to the implementation of the Association Agreements, DCFTAs and Action Plans, notably in the areas of energy, environment/climate change and small and medium-sized enterprises (SMEs). Energy efficiency, renewable energy production and energy security projects are being funded, as are various forms of support to SMEs.

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SME FINANCE FACILITY

The SME Financing Facility is part of the SME Flagship initiative. It brings together loans from European Financial Institutions and EU grant resources to promote lending to small and medium-sized enterprises (SMEs) in EaP countries. The Facility aims to restore the confidence of financial intermediaries in lending to SMEs and micro-enterprises in the wake of the financial crisis. EU grant resources are used to cover part of the risk, reduce the costs of lending and strengthen the capacity of local banks to manage loans to SMEs. The Facility is in line with strategic objective no. 3 of the NIF: promoting smart, sustainable and inclusive growth, in particular through support for small and medium-sized enterprises.

DCFTA SME FACILITIES

The Commission is launching DCFTA facilities to help SMEs face the challenges and benefit from opportunities stemming from the DCFTAs. The NIF will support these facilities with EU grants of approximately €150m in total, which should lead to more than €1.5bn of investments. DCFTA Facilities have been launched with the SME Direct Support Facility of €10m, which will directly support investment by SMEs in the three countries by guaranteeing loans amounting to around €70m.

CAUCASUS TRANSMISSION NETWORK

The Armenia Caucasus Transmission Network is a major infrastructure project that will connect the Armenian and Georgian power grid and help Armenia increase its energy security. The link with EU policy is that it will help establish better energy interconnections and thereby contribute to regional integration and indirect access to the EU's European Network of Transmission System Operators (ENTSO-E). This is a core part of the NIF priority orientations. It is also in line with the European Neighbourhood Action Plan, which calls for more regional co-operation in the field of energy.

FINANCING TECHNOLOGIES AGAINST CLIMATE CHANGE – FINTECC

Creating an enabling framework for innovative climate change technologies in Ukraine, reducing CO2 emissions, increasing competitiveness and promoting convergence with European standards

Like many states of the former Soviet Union, Ukraine faces major energy challenges. For decades, Russian oil and gas were highly-subsidised so there was little incentive to consider energy efficiency when building factories and housing stock. Today, Ukraine is struggling with the legacy of energy-intensive industries and obsolete infrastructure at a time when its financial resources are drained by a costly conflict in the east of the country. Energy self-sufficiency is a key national priority.

Reducing energy intensity, especially in its manufacturing and agribusiness sectors, will make Ukrainian industry more competitive, align its environmental standards with European practice, reduce pollution and greenhouse gas emissions, and increase quality of life for Ukrainians. Mainstreaming climate resilient technologies could radically alter Ukraine's carbon footprint, in line with national targets to halve energy use in key industrial sectors by 2017, as well as the EU-Ukraine Association Agreement and NIF strategic priorities.

Market penetration of these technologies in Ukraine remains low, however. Government policies do not incentivise technology transfer nor mandate sound environmental practice; permits for new technologies are often delayed, and energy subsidies remain in place, reducing the appeal of energy investments. Companies considering investing in, or indeed manufacturing, climate technology face regulatory risks, high upfront costs and long payback periods. Many lack the technical capacity to design bankable proposals and appraisers often use a rigid cost-benefit approach without considering opportunity costs. Banks are often unfamiliar with energy investments and concerned by regulatory risks. Information on new technologies and market opportunities like carbon pricing does not circulate well among the different actors involved.

FINTECC addresses weaknesses in the entire energy technology supply chain that Ukraine's government is currently unable to address. EBRD will offer a variety of financing options, the Global Environment Facility (GEF) will provide incentive grants, and the EU NIF will support technical assistance to create an enabling environment and sustainable improvements in clean energy investment in Ukraine.

NIF-funded policy review and dialogue will strengthen the institutional and regulatory framework to promote sensible energy reforms aimed at energy security and technology transfer. Knowledge and awareness strategies will network with other initiatives to close the information gap. The NIF will also support technology deployment, promoting market transformation by aligning the interests of providers and users of climate technology. For technology users, i.e. companies, this may include: identifying and sharing energy best practices and appropriate technologies; transferring technologies used in a few industrial sectors to others where they are equally applicable; support in optimising resource use and implementing energy projects; and assessing and providing training in resource efficiency management systems. For technology providers, technical assistance will support research and development and certification of climate technologies, as well as capacity building for experts and technicians, possibly involving local universities, research institutes and business/industry associations.

The EBRD is keen on investing in clean energy in Ukraine. FINTECC and the EU NIF will help create enabling conditions so that these financial resources can be utilised to their full potential.

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Energy – Ukraine

Total cost: €79.76m

NIF grant: €4m in technical assistance

Lead Financial Institution: EBRD with €70.56m

Other funding: GEF with €5.2m in investment grants

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EIB DCFTA Support Initiative

Private Sector - Georgia, Moldova, Ukraine

Total cost: €1,286.5m

NIF grant: €95.5m (investment grant €50m; technical assistance €5.5m; communication €0.5m; and top-up grant for Ukraine only €40m)

Lead Financial Institution: EIB with €681m

Other funding: €510m (public and private sector promoters)

EBRD DCFTA Support Facility

Private Sector - Georgia, Moldova,

DCFTA SUPPORT, REGIONAL, PRIVATE SECTOR

Assisting SMEs in Georgia, Moldova and Ukraine reaping the opportunities of integration with EU markets.

Three countries in the EU's Eastern Neighbourhood – Ukraine, Georgia and Moldova – have recently signed Association Agreements with the EU, including Deep and Comprehensive Free Trade Area (DCFTA) agreements. DCFTA agreements give access to the EU market in selected sectors, while EU investors can operate in those same sectors, under the same regulatory environment in the partner country as in the EU. DCFTAs aim to modernise trade relations and promote economic growth in partner countries, but are also expected to bring about greater transparency and a more effective regulatory framework. While DCFTAs open new markets for these three countries their historic trading partner, Russia, recently imposed an import ban on some of their products.

In general, larger companies in the region retain access to investment capital; however, micro-, small and medium-sized enterprises (MSMEs), which form the backbone of the economy, struggle to obtain credit. This constrains their capacity to expand. It is therefore vital to ensure that MSMEs can withstand possible short-term loss of income, while preparing for the larger and more competitive European market.

Entrepreneurship and a strong small and medium-sized enterprise (SME) sector are seen as central to achieving inclusive economic growth and job creation, driven by the private sector. In the NIF Strategic Orientation 2014-2020, 'Promoting smart, sustainable and inclusive growth' is one of three strategic objectives and direct reference is made to DCFTAs and to SME development and financing.

European Financial Institutions are playing a key role in improving the investment climate in Georgia, Moldova and Ukraine. The EIB DCFTA Support Initiative and the EBRD DCFTA Support Facility both contribute to an effective implementation of the DCFTA agreements and both are supported by the NIF.

EIB DCFTA INITIATIVE EAST

This 3-year programme focuses primarily on expanding lending by micro-finance institutions (MFI) to small farmers. This sector focus is particularly strong in Georgia and Moldova. Agriculture and rural development are thus priorities both of the Government of Moldova's National Development Strategy and the EU-Moldova Association Agreement. Poverty alleviation in rural areas is equally important for Georgia, whose government also sees it as a way to promote national unity. In Georgia, the DCFTA initiative complements the NIF-funded ENPARD programme.

Agriculture is less of a focus in Ukraine, where EU support aims to modernise the private sector more broadly, in line with the EU's 2014 "Support package for Ukraine". In order to benefit fully from the DCFTA, the economy needs to be restructured and the business climate improved, which is why additional assistance has been made available. Improving the economy´s access to credit is key. Lack of collateral means that international lenders, especially traditional banks, perceive MSMEs as high-risk clients. Local currency lending may also expose them to currency risks. The NIF covering some of that risk provides an incentive to reconsider.

The EIB DCFTA Initiative East is comprised of three financial pillars: 1) risk capital targeted at micro-finance and SME finance; 2) market access finance, including partial credit guarantees for individual sub-projects and investment support schemes; and 3) a guarantee facility that offers first loss cover on SME loan portfolios.

Underpinning the three financial pillars, technical assistance supports the roll-out of the financial products. It will work with national and local authorities on changes to the regulatory environment, as well as build capacity in local financial institutions to manage SME loan portfolios. Support will also be provided to SMEs applying for loans and to organisations related to the agricultural sector. Finally, communication activities will ensure the new investment opportunities are well known and understood by all parties.

EBRD DCFTA SUPPORT FACILITY

Like the EIB Initiative, the EBRD DCFTA Support Facility supports SME access to finance. Dedicated credit lines and risk mitigation instruments increase the propensity of partner financial institutions to lend to SMEs. Unlike the EIB Initiative, the EBRD Facility is not sector-specific; rather it prioritises export and import-substitution sectors, capital investment for plant, equipment or efficiency/process upgrades, and projects geared to compliance with EU standards. Another line of activity in the Facility, which is not NIF-funded, focuses on access to short- and medium-term trade financing, also vital for small businesses operating across international borders.

The Facility will improve SME access to finance through credit lines to local financial institutions for lending on to MSMEs, with a NIF investment and risk-sharing grant providing first loss cover of up to 10% on loan portfolios. The NIF grant will increase the number of partner financial institutions lending to SMEs and spur them to actively promote long-term lending products to small businesses. Once they have experienced the benefits, these institutions are likely to continue, increasing SME funding levels in the future. EBRD will benchmark the DCFTA portfolio against an existing SME loan portfolio to quantify and demonstrate the added value of the NIF grant over time.

NIF funds will also subsidise business advisory services for SMEs, for example for product compliance with EU standards and to adapt business, financial and marketing plans in light of the new opportunities arising from DCFTA. These services complement the EBRD's Small Business Support (SBS) services. About 120 SMEs will benefit from advisory services and increase their turnover by 50% as a result. NIF-funded communication actions will show how the Facility's different components combine to support EU convergence. Finally, targeted policy dialogue will aim to make it easier for smaller companies to thrive in, and export from, Georgia, Moldova and Ukraine.

Both the EBRD Facility and the EIB Initiative are designed to support the DCFTA process, progressively removing structural barriers. NIF involvement injects confidence into local financial markets, reducing risk and inducing partner financial institutions to lend to smaller businesses. In the longer term, a flourishing financial sector will hopefully become more innovative, developing more relevant products. Stronger MSMEs will be better able to compete in the domestic and European markets.

Ukraine

Total cost: €422.5m

NIF grant: €19 (investment grant €18m; technical assistance €0.8m; communication €0.2m)

Lead Financial Institution: EBRD with €380m

Other funding: €20m (€15m from partner financial institutions and €5m from sub-borrowers)

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Private Sector – Regional (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine)

Total cost: €54.3m

NIF grant: €4.3m incentive grant and €0.5m technical assistance

Lead Financial Institution: EBRD with €43.4m

Other funding: €6.1m

WOMEN IN BUSINESS PROGRAMME – REGIONAL, PRIVATE SECTOR

Female entrepreneurs are crying out for credit and know-how to help them expand. Women in Business works with banks and women-led businesses to level the playing field in access to finance and services.

Women throughout the world face gender discrimination and the Eastern Neighbourhood region is no exception. Female participation in the workplace is closely correlated with stronger economic growth, so it is vital that access to knowledge, resources and opportunities be open to women as well as to men. In the region, as elsewhere, government budgets are tight, the public sector is shrinking, and privately-owned small and medium-sized enterprises (SMEs) are set to drive future growth. This calls for a radical shift in thinking after decades of Soviet-era central planning and entrepreneurs face structural problems, including limited access to finance. Women business owners face even greater challenges.

Unlike many other transition economies, there is no strong tradition of female entrepreneurship in the region. Women-run businesses tend to be concentrated in low-value service sectors and in the informal economy, which further precludes access to financial services. According to the SME Finance Forum, the credit gap in the six countries of the region is around €10bn. Moreover, women entrepreneurs consistently identify insufficient access to credit and business development services as major constraints to growing their businesses. Although cultural attitudes vary in the different countries, gender disparity is evident in all of their banking sectors: banks are still more reluctant to lend to women than to men and rarely design product offerings to meet the specific needs of female entrepreneurs.

The Women in Business Program, led by the EBRD and supported by the NIF, advances EU Neighbourhood Policy objectives to promote entrepreneurship and gender equality. It facilitates access to finance and know-how so that female entrepreneurs can successfully grow their businesses, creating more wealth and more jobs. In parallel, the programme helps local financial institutions recognise the huge potential of the women-run SME market and adapt product offerings to suit their needs.

Women in Business combines dedicated financing for female entrepreneurs, delivered through partner financial institutions, with two types of technical assistance: one for such institutions to help them understand the sector and develop relevant product offerings; and one for advising and mentoring female entrepreneurs on growing their businesses. An EU NIF grant provides first loss risk cover for loans, making partner financial institutions better disposed to lending to what they perceive as a higher-risk customer. This added incentive opens the way for positive experiences and is expected to change attitudes among these institutions, leading to a sustainable improvement in banking practice and better long-term access to credit for female entrepreneurs.

The programme will radically improve access to finance for businesswomen, with 12 partner financial institutions expected to make roughly 3 000 new loans to female-run SMEs in the region. Awareness raising seminars, also supported by the NIF, will reach around 500 entrepreneurs; roughly the same number will benefit from training, advisory and mentoring services.

One of the NIF strategic priorities is to promote “smart, sustainable and inclusive growth, in particular through support for small and medium-sized enterprises”. Women in Business ticks all the right boxes.

ARMENIA SME FINANCE AND ADVICE FACILITY – PRIVATE SECTOR, ARMENIA

A dedicated facility to improve access to finance and business development services for small and medium-sized enterprises in Armenia

Armenia is a landlocked country with a small population, highly dependent on remittances from a large diaspora. After growing strongly earlier this decade, Armenia's economy has slowed recently due to weaker trade and investments from its main trading partner, Russia. A weakening local currency has put pressure on foreign reserves, leading to concerns about the highly dollarized banking sector.

The country's economic future hinges on increasing the competitiveness of the private sector, particularly small and medium-sized enterprises (SMEs). SMEs account for about 42% of GDP and 42% of jobs. One of the major challenges SMEs face is limited access to finance. They attract little or no foreign investment. For expansion or increasing productivity, SMEs rely on bank lending, if they have physical assets to use as security. Their very limited share of exports suggest they are less competitive than corporates. As Armenia progressively integrates into European and world markets, SMEs will face harsh competition from imports for even the domestic market.

Globalisation is a threat, but also an opportunity: SMEs that modernise production processes and adopt international best practice in technology and management will be well-placed to compete for their share of a vast market. Armenia's government began work on developing the SME sector in 2000 and has made many structural reforms to improve the business environment. The other hurdle for SMEs is finance, and this is where the NIF-funded Armenia SME Finance and Advice Facility comes in.

Led by EBRD, the Facility is designed to improve SME access to finance and advisory services. Using NIF investment capital and its own resources, EBRD will set up an independent private equity fund, open also to other financial institutions, to provide risk capital for SMEs whose requests are approved. Loans will be made either directly through the EBRD's office in Yerevan, or in co-financing with local partner financial institutions. The fund will be governed transparently using overlapping mechanisms: an investment committee, an advisory committee and shareholder voting. While it may consult with, for example, the Armenian government and other EU initiatives, external entities will have no role in its operations. The NIF contribution will provide first loss cover as an additional incentive for investors and partner financial institutions.

A NIF-funded technical assistance component will extend EBRD's Small Business Support (SBS) programme, which has served over 1 200 SMEs since its creation in 2003. 9 out of 10 of its clients increased their turnover by half in the year after using SBS services. As well as providing business development services, such as such as strategy, marketing and financial management, SBS will help SMEs prepare bankable projects, some of which may be financed by the Facility's private equity fund.

The Armenia SME Finance and Advice Facility provides a comprehensive response to clearly defined challenges. It supports EU Neighbourhood and NIF objectives to promote sustainable economic growth and job creation by strengthening the SME sector. It complements other national and regional private sector development initiatives while avoiding overlaps. NIF involvement greatly enhances the Facility by reducing risk, encouraging investment and providing SMEs with finance, knowledge and skills to become more competitive, take full advantage of globalised markets, and create sustainable growth and employment.

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Private Sector – Armenia

Total cost: €136.2m

NIF grant: €15m (up to €11m risk sharing and investment grant; €4m for technical assistance)

Lead Financial Institution: EBRD with €88m

Other funding: €33.2m

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Water – Georgia

Total cost: €280m

NIF grant: €4.75m incentive grant

Lead finance institution: EIB with €100m in loans and €3.25m in technical assistance (through EPTATF)

Co-financier: ADB with €170m in loans

KUTAISI WASTE WATER PROJECT

Upgrading Kutaisi's water treatment infrastructure will prevent contamination of drinking water and protect public health and fragile ecosystems. NIF involvement will reduce the project's carbon footprint.

Decades of underinvestment, conflict and political turmoil have left much of Georgia's water infrastructure in a disastrous state. Most urban water supply systems are over 40 years old and some date back to the 1930s. In Kutaisi and surrounding areas, severe water shortages are common and prolonged water outages affect most households every day. Drinking water quality is very poor in some places due to secondary contamination of water supplies. Larger cities discharge raw sewage into water bodies, while many residents of smaller communities are not connected to mains sewage networks and instead use pit latrines and septic tanks. Only one wastewater treatment facility is in operation.

Much of Georgia's water and sanitation infrastructure is obsolete and needs to be replaced. An estimated €1-2bn of investment is required to reach an acceptable level of service and mitigate public health hazards. Urgent action is needed to prevent further decay and address emergency situations in urban areas. Donor assistance in the mid-90s brought improvements to some towns but did little to address structural deficiencies of a fragmented water sector and an inadequate regulatory and financial framework to manage investments at local level.

The Georgian government has recently embarked on a water reform programme, privatising water services in and around the capital, Tbilisi, to bring in new private investment. Water services in the rest of the country, previously run by 60 municipal utilities, are now managed by one of two state-owned water companies. The larger of the two, United Water Supply Company of Georgia (UWSCG), is responsible for water services in Kutaisi, has already received EIB and NIF support for modernising water supply infrastructure, and is the main implementing partner in this new project.

The Kutaisi Waste Water Project focuses not on water supply, but on management and treatment of wastewater, which has major implications for public health and protecting the fragile Black Sea ecosystem. The project, financed by EIB and the Asian Development Bank (ADB), will extend the public sewage network and build a mechanical-biological wastewater treatment plant.

The EU NIF is also supporting the project with a grant to cover additional measures to enhance environmental protection and climate mitigation. A biogas facility linked to the wastewater plant will process residual sludge, producing enough energy to cover the operating needs of the facility. As well as reducing CO2 emissions, a useful by-product is nutrient-rich fertilizer for use in agriculture, a major source of income for the local population. The NIF grant has widened the project scope, reducing its carbon footprint, enhancing environmental protection and adding value to the overall initiative.

The project is in line with Georgia's environmental legislation and the government's aim to provide all citizens with reliable, good quality drinking water and sanitation services. It also supports convergence with the EU Directive on Urban Wastewater Treatment and the NIF's strategic priorities of climate change mitigation and environmental protection. Crucially, the EU-Georgia Association Agreement identified urban wastewater collection a priority in 2014 and the Kutaisi Waste Water project is a concrete example of its successful implementation.

AFD-ENPARD PROJECT FOR ACCESS TO AGRICULTURAL FINANCE FOR SMALL SCALE FAMILY FARMERS AND COOPERATIVES

A dedicated facility to provide agro-loans, supporting the resilience and growth of small-scale farms and cooperatives

With a mountain range blocking cold fronts from the north and warm, moist air coming off the sea in the west, Georgia has a moderate climate which, along with fertile soils and plentiful water, greatly favours agriculture. Grapes were grown and wine produced here as early as 300BC. Grapes and a wide variety of other fruits and vegetables are still cultivated today. Large-scale land improvement, draining marshy areas and irrigating arid soils, was a feature of the Soviet period, but so too was collectivization and low productivity. Nonetheless, in 1990 agricultural workers made up 47% of the workforce. In the turmoil that followed independence in 1991, agricultural production collapsed, causing widespread rural poverty. Collectives were dismantled and half-hectare plots at least enabled families to survive.

Over 100 000 non-subsistence farms under 2ha still exist today; a further 50 000 have plots between 2ha and 5ha. With adequate investment, the latter group especially could grow and thrive. Agricultural production is less than 70% of 1991 levels. Studies suggest it could easily triple with a sustainable development model based on well financed small farms and cooperatives. The Georgian government, with EU ENPARD support, is promoting cooperatives to increase productivity and economies of scale. Globalisation and the EU-Georgia DCFTA (Deep and Comprehensive Free Trade Area) agreement offer huge opportunities.

While the government recognises a financing gap in agriculture, its 'Cheap Loan Programme' sets a minimum loan amount that effectively excludes small farmers. Micro-finance alternatives are short-term and costly. Cooperatives too have credit problems: only recently recognised as legal entities, they lack the track record commercial banks require. Underinvestment in cooperatives could limit the success of the ENPARD programme.

The AFD-ENPARD project is a concrete response to the challenges faced by small farmers and cooperatives in accessing finance to grow their businesses and increase competitiveness. AFD is providing a €20m credit line to Bank of Georgia for lending on to small farms and cooperatives excluded from the existing loan programme. Loan requests will naturally have to meet stringent criteria. Requests for investment capital for growth, as opposed to working capital, will be viewed particularly favourably.

Supporting this is NIF-funded technical assistance aiming primarily to give farmers and cooperatives guidance and incentives to improve their operations and creditworthiness. Having identified target farming operations, on-field consulting will help meet their business and financial planning needs. Financial institutions may receive short-term support to increase their capacity to serve small agro-business clients, and institutional dialogue on agriculture may be a secondary focus.

The project's credit line and technical assistance are mutually reinforcing measures and serve to strengthen, without duplicating, EU ENPARD programme activities and other donor initiatives. The project is in line with NIF objectives to support the private sector and small and medium-sized enterprises. Moreover, agricultural development is identified as a key priority in the EU-Georgia Association Agreement and in the DCFTA agreement. A stronger agricultural sector will help strengthen the DCFTA as well as creating sustainable and inclusive economic growth at home.

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Private Sector – Georgia

Total cost: €28m

NIF grant: €4m grant for technical assistance

Lead Financial Institution: AFD with €20.1m (€20 investment and €01m grant)

Own contribution: €4m

Country	Year of approval	Title of the project
Egypt	2008	IWSP (Improved Water and Wastewater Services Programme)
Egypt	2008	200 MW Wind Farm in Gulf of El Zayt
Egypt	2010	Master plan (combined RE) + FS for CSP in Egypt
Egypt	2010	Egyptian Power Transmission
Egypt	2010	TA 20 MW PV grid connected Power Plant
Egypt	2010 & 2011	IWSP II - Upper Egypt
Egypt	2011	Alexandria public transport project FS
Egypt	2011, 2012 & 2014	Cairo Metro Line 3 Phase 3
Egypt	2012 & 2014	Integrated and Sustainable Housing and Community Development Programme
Egypt	2013 & 2015	Kafr El Shekh Wastewater Expansion (KESWE)
Egypt	2014	Egyptian Pollution Abatement Programme III
Egypt	2015	Egypt Natural Gas Connection Project
Egypt	2015	Southern and Eastern Mediterranean (SEMED) Regional Sustainable Energy Finance Facility: Phase 2
Egypt	2015	200 MW Wind Farm Project Gulf of Suez
Jordan	2010	Jordan Electricity Transmission
Jordan	2013	AFD Sustainable Credit Facility harmonization with SEMED SEFF
Jordan	2015	NEPCO Green Corridor
Lebanon	2012	Lebanon Energy Efficiency and Renewable Energy Global Loan
Lebanon	2009 & 2012	Kesrwan Wastewater
Morocco	2008	Programme National de Routes Rurales
Morocco	2008 & 2009	Tramway de Rabat
Morocco	2009	Support Programme for the Education Sector
Morocco	2010	Programme National d'Assainissement
Morocco	2011	Ouarzazate Solar Plant
Morocco	2011	Drinking Water Efficiency Programme
Morocco	2012	Renforcement du réseau de transport électrique
Morocco	2013	Integrated Wind Programme
Morocco	2014	Ville nouvelle de Zenata
Morocco	2014	Noor II: Second parabolic through CSP Ouarzazate
Morocco	2014	Noor III: Tower plant of the Ouarzazate Solar Complex
Morocco	2014	IFMEREE - Création des Instituts de formation aux métiers énergies renouvelables et de l'efficacité énergétique
Tunisia	2008	Feasibility Study for Solar Thermal Power Plant in Tunisia
Tunisia	2008 & 2009	STEP (Part I & II)
Tunisia	2009 & 2010	Réseau Ferré Rapide de Tunis
Tunisia	2011	Study for the waste water sewerage of industrial zones
Tunisia	2013	Integrated Depollution Programme (Lake Bizerte)
Tunisia	2014	Modernisation établissements scolaires
Tunisia	2015	Programme d'Appui à la Formation et à l'Insertion Professionnelle (PAFIP)
Tunisia	2015	Sustainable Use of Natural Resources and Energy Finance in Tunisia (SUNREF)
Tunisia	2015	Centrale photovoltaïque (PV) Tozeur
Regional	2011 & 2015	SANAD - MENA Fund for Micro-, Small and Medium Enterprises
Regional	2011	Implementation of EBRD Turnaround Management and Business Advisory Services in Egypt, Morocco and Tunisia
Regional	2011	Southern and Eastern Mediterranean Project Preparation Framework to fast-start EBRD support to the region
Regional	2012	Renewable Energy and Energy Efficiency Project Preparation Initiative in support of the Mediterranean Solar Plan (MSP-P
Regional	2012	SME Guarantee Facility
Regional	2012	Mediterranean Urban Project Finance Initiative (UPFI TA)
Regional	2013	SEMED Sustainable Energy Financing Facility
Regional	2013	PPP Project preparation "MED P5 Initiative"
Regional	2013	EU Neighbourhood Programme Management and Support in the Transport sector
Regional	2014 & 2015	Risk Capital Facility for the South Neighbourhood
Regional	2014	EBRD SBS in South and East Med Countries (Phase II)
Regional	2015	SEMED Micro-, Small and Medium Enterprises Financial Inclusion Programme

(*) C.CH / R: Climate Change action support / Rio marker

	Consortium of European Finance Institutions	Sector	Total project cost (€ million)	NIF contribution (€ million)	Climate Action support (€ million)	Type of support	C.CH* / R*
	KfW , EIB , AFD	Water/Sanitation	295.1	5.2	2.08	Grant	Yes / 1
	KfW , EIB	Energy	340.0	10.2	10.20	Grant	Yes / 2
	KfW , AFD , EIB	Energy	3.2	3.2	3.15	TA	Yes / 2
	EIB , AFD , KfW	Energy	762.0	20.5	0.00	Grant/TA	No / 0
	AFD , EIB , KfW	Energy	0.9	0.9	0.86	TA	Yes / 2
	KfW , EIB , AFD	Water/Sanitation	306.0	13.5	5.22	TA	Yes / 1
	AFD	Transport	0.5	0.5	0.21	TA	Yes / 1
	AFD , EIB	Transport	2,099.0	44.5	17.60	Grant/TA	Yes / 1
	EIB , AFD	Social	178.5	34.1	13.40	Grant/TA	Yes / 1
	EIB , EBRD	Water/Sanitation	163.5	32.7	13.09	Grant/TA	Yes / 1
	EIB , KfW	Energy/Environment	187.0	10.4	10.44	Grant/TA	Yes / 2
	AFD	Energy	1,710.0	69.1	69.05	Grant/TA	Yes / 2
	EBRD , AFD . EIB	Energy	180.6	23.9	23.86	Grant/TA	Yes / 2
	KfW , EIB , AFD	Energy	344	30.7	30.68	-	Yes / 2
	EIB , AFD	Energy	150.0	2.4	0.00	TA	No / 0
	AFD	Energy	38.5	1.6	1.61	Grant	Yes / 2
	EIB , AFD	Energy	146.1	17.8	17.79	Grant/TA	Yes / 2
	EIB , AFD	Energy	151.0	4.2	4.16	TA	Yes / 2
	EIB , AFD	Water/Sanitation	220.0	10.4	4.14	Grant	Yes / 1
	EIB , AFD	Transport	397.0	10.0	0.00	Grant/TA	No / 0
	AFD , EIB	Transport	349.0	8.2	3.29	TA	Yes / 1
	AFD , EIB	Social	1,900.0	15.4	0.00	Grant/TA	No / 0
	AFD , KfW , EIB	Water/Sanitation	176.0	10.2	4.08	Grant/TA	Yes / 1
	EIB , AFD , KfW	Energy	807.0	30.6	30.60	Grant	Yes / 2
	KfW , AFD	Water/Sanitation	101.0	7.2	2.88	Grant/TA	Yes / 1
	AFD , KfW	Energy	411.0	15.3	6.54	Grant/TA	Yes / 1
	KfW , EIB	Energy	859.0	15.3	15.00	Grant	Yes / 2
	AFD , EIB	Social	560.0	4.2	1.66	TA	Yes / 1
	KfW , EIB	Energy	1,070.0	40.8	40.75	Grant	Yes / 2
	EIB , AFD , KfW	Energy	855.0	50.8	50.75	Grant	Yes / 2
	AFD	Social	26.0	10.2	10.20	Grant	Yes / 2
	KfW , AFD , EIB	Energy	1.1	1.1	1.07	TA	Yes / 2
	KfW , AFD	Water/Sanitation	132.0	8.2	3.28	Grant	Yes/1
	AFD , KfW , EIB	Transport	564.0	28.6	11.42	Grant/TA	Yes / 1
	KfW	Water/Sanitation	1.6	0.9	0.34	TA	Yes / 1
	EIB , EBRD	Water/Sanitation	90.0	15.4	6.17	Grant/TA	Yes / 1
	EIB , KfW	Social	213.0	20.5	0.00	Grant/TA	No / 0
	AFD	Social	28.4	3.2	0.00	TA	No / 0
	AFD , EBRD , EIB	Energy	133.2	13.6	13.57	Grant/TA	Yes / 2
	KfW	Energy	16	1.6	1.61	TA	Yes / 2
	KfW	Private	235.4	30.6	0.00	TA/Equity	No / 0
	EBRD	Private	5.2	5.2	0.00	TA	No / 0
	EBRD	Private	15.0	15.3	0.00	TA	No / 0
PI)	EIB , AFD , KfW , AECID	Energy	5.2	5.2	2.08	TA	Yes / 1
	EIB , AFD	Private	320.0	24.5	0.00	Guarantees	No / 0
	AFD	Mixed	5.2	5.2	2.08	TA	Yes / 1
	EBRD	Energy	141.7	16.8	6.73	Risk Capital	Yes / 1
	EIB	Mixed	5.2	5.2	2.08	TA	Yes / 1
	EIB	Transport	7.1	5.2	2.08	TA	Yes / 1
	EIB	Private	1,000.0	50.9	0.00	TA/Guarantees	No / 0
	EBRD	Private	24.4	20.9	0.00	TA	No / 0
	EBRD	Private	353.5	27.6	0.00	TA/Risk Capital	No / 0
		Total	18,709.6	858.10	445.58		

Country	Year of approval	Title of the project
Armenia	2009	Yerevan Metro
Armenia	2009	Armenia Small municipalities water project
Armenia	2011	Kotayk Solid Waste project (Armenian Solid Waste Management Programme)
Armenia	2012	Border Crossing and Infrastructure
Armenia	2012	Yerevan Metro - 2nd phase
Armenia	2013	Yerevan Water Supply Improvement Project
Armenia	2013	Communal Infrastructure Programme
Armenia	2013	North-South Road Corridor
Armenia	2013	NMC Social & Energy Efficiency Housing Finance
Armenia	2014	Caucasus Transmission Network Stage 1
Armenia	2014	Yerevan Armenian Solid Waste Management Programme
Armenia	2015	SME Finance and Advice Facility in Armenia
Azerbaijan	2012	Regional Road Reconstruction Project
Georgia	2008	Black Sea Energy Transmission System
Georgia	2009	Tbilisi Railway Bypass Environmental Clean up
Georgia	2010	Enguri / Vardnili Hydro Power Cascade Rehabilitation
Georgia	2010 & 2012	Water supply and sewage of Batumi and surrounding villages (phase I and III)
Georgia	2010 & 2012	Water Infrastructure Modernisation (I & II)
Georgia	2011	Georgia East-West Highway
Georgia	2013	Jvari-Khorga Interconnection (Transmission line and substation)
Georgia	2015	Kutaisi Waste Water Project (KWWP)
Georgia	2015	ENPARD - Access to Agricultural Finance for Small-scale Family Farmers and Cooperatives
Moldova	2008	Capacity assessment and modernisation of the Republican Clinical Hospital (RCH)
Moldova	2008	Chisinau Airport Modernisation Project
Moldova	2008	Feasibility Study for Improvement Water/Sanitation Systems in Chisinau
Moldova	2008, 2011 & 2013	Moldova Road Rehabilitation project (2nd, 3rd and 4th Phase)
Moldova	2010	Chisinau Public Transport project
Moldova	2010	Water Utilities Development Programme in the Republic of Moldova
Moldova	2010	Filière du vin Upgrading
Moldova	2011	Moldovan Residential Energy Efficiency Financing Facility (MoREEFF)
Moldova	2011	2nd Phase of the Moldova Sustainable Energy Efficiency Finance Facility (MoSEFF2)
Moldova	2012	Moldoelectrica Power Transmission Network Rehabilitation
Moldova	2012	Balti Trolleybus Project
Moldova	2013	Chisinau Water Development Programme
Moldova	2013	Moldova Railways fleet renewal
Moldova	2014	Fruit Garden of Moldova
Moldova	2014	Moldova North Water PPP
Ukraine	2008	TA Support for Ukrainian Municipalities
Ukraine	2008	Ukrenergo Corporate Sustainable Development
Ukraine	2009	Ukraine Power Transmission Network
Ukraine	2009	Hydropower rehabilitation project
Ukraine	2010	Preparatory studies for modernisation UA gas transit and storage
Ukraine	2011	Power Transmission Efficiency Project
Ukraine	2015	Financing Technologies against Climate Change – FINTECC
Regional	2008	Framework for support Financial Intermediaries
Regional	2009	ENBF - European Neighbourhood Small Business Growth Facility (Parts I & II)
Regional	2009	Financial sector Institutional building and crisis response
Regional	2009	Regional Energy Efficiency Programme for Corporate sector
Regional	2010 & 2014	SME Finance Facility (Phase I & II)
Regional	2012	Integrated Solid Waste Management in the Southern Caucasus
Regional	2012	Green For Growth Fund for Eastern Region
Regional	2012 & 2014	SBS Programme and EGP and BAS (Phase I & II)
Regional	2013	Caucasus Sustainable Energy Finance Facility
Regional	2013	SME Direct Support Facility
Regional	2014	E5P Expansion to other Eastern Partnership Countries
Regional	2014	Municipal Project Support Facility (MPSF)
Regional	2015	Deep and Comprehensive Free Trade Agreements (DCFTA) Facility
Regional	2015	Deep and Comprehensive Free Trade Agreements (DCFTA) Initiative East
Regional	2015	Women in Business Programme in the Eastern Partnership (EaP)

	Consortium of European Finance Institutions	Sector	Total project cost (€ million)	NIF contribution (€ million)	Climate Action support (€ million	Type of support	C.CH* / R*
	EBRD, EIB	Transport	16.6	5.2	2.1	Grant	Yes / 1
	EBRD, EIB	Water/Sanitation	20.8	7.8	3.1	Grant/TA	Yes / 1
	EBRD	Water/Sanitation	38.3	3.7	1.5	Grant	Yes / 1
	EIB, EBRD	Transport	60.6	12.2	0.0	Grant	No / 0
	EBRD, EIB	Transport	17.1	5.2	2.1	Grant	Yes / 1
	EBRD	Water/Sanitation	17.2	5.7	2.3	Grant	Yes / 1
	KfW, EIB	Water/Sanitation	87.5	15.4	6.2	Grant/TA	Yes / 1
	EIB	Transport	381.0	12.4	0.00	Grant/TA	No / 0
	AFD, KfW	Social	11.5	1.6	0.6	Grant/TA	Yes / 1
	KfW	Energy	134.0	10.4	0.0	Grant/TA	No / 0
	EBRD , EIB	Water/Sanitation	25.9	8.2	3.3	Grant	Yes / 1
	EBRD	Private	136.2	15.4	0.0	TA/Risk Capital	No / 0
	EBRD	Transport	681.0	3.6	0.0	TA	No / 0
	KfW, EIB, EBRD	Energy	280.0	9.3	0.0	TA	No / 0
	EBRD	Transport	253.5	2.7	1.1	TA	Yes / 1
	EBRD, EIB	Energy	47.0	5.2	5.2	Grant/TA	Yes / 2
	KfW	Water/Sanitation	67.0	8.9	3.6	Grant/TA	Yes / 1
	EIB	Water/Sanitation	86.0	12.4	4.9	TA	Yes / 1
	EIB	Transport	592.1	20.4	0.0	Grant	No / 0
	KfW, EBRD	Energy	71.4	8.2	3.3	Grant	Yes / 1
	EIB	Water/Sanitation	280.0	5.0	5.0	Grant	Yes / 2
	AFD	Agriculture	28.0	4.2	1.7	TA	Yes / 1
	CEB	Social	18.0	3.1	0.0	Grant/TA	No / 0
	EBRD, EIB	Transport	46.3	1.8	0.0	TA	No / 0
	EBRD, KfW, EIB	Water/Sanitation	59.0	3.2	1.3	TA	Yes / 1
	EBRD, EIB	Transport	496.7	44.1	0.0	Grant/TA	No / 0
	EBRD, EIB	Transport	15.5	3.2	1.3	Grant	Yes / 1
	EBRD, EIB	Water/Sanitation	31.5	10.2	4.1	Grant	Yes / 1
	EIB	Private	391.3	2.1	0.0	TA	No / 0
	EBRD	Energy	41.8	5.2	5.2	Grant/Guarantees	Yes / 2
	EBRD	Energy	23.3	4.7	4.7	Grant/TA	Yes / 2
	EBRD, EIB	Energy	36.6	8.4	3.3	Grant/TA	Yes / 1
	EBRD	Transport	5.0	1.7	0.7	Grant	Yes / 1
	EBRD, EIB	Water/Sanitation	62.1	13.8	5.5	Grant/TA	Yes / 1
	EBRD, EIB	Transport	66.5	5.2	2.1	Grant	Yes / 1
	EIB	Private	300.0	8.6	0.0	TA/Guarantees	No / 0
	EBRD, EIB	Water/Sanitation	32.5	10.2	4.1	Grant	Yes / 1
	EBRD	Mixed	135.0	5.2	0.0	TA	No / 0
	EBRD, EIB	Energy	301.3	0.9	0.0	TA	No / 0
	EBRD, EIB	Energy	1,110.0	10.3	0.0	TA	No / 0
	EBRD, EIB	Energy	398.6	3.8	3.8	TA	Yes / 2
	EBRD, EIB	Energy	2,000.0	2.7	0.0	TA	No / 0
	KfW	Energy	78.3	1.9	0.8	TA	Yes / 1
	EBRD	Energy	79.8	4.2	4.2	TA	Yes / 2
	EBRD	Private	38.3	3.0	0.0	TA	No / 0
	KfW, OeEB	Private	70.0	10.2	0.0	Equity	No / 0
	EBRD	Private	12.0	12.3	0.0	TA	No / 0
	EBRD	Energy	302.0	2.1	2.1	TA	Yes / 2
	EBRD, EIB, KfW	Private	240.0	30.6	0.0	TA/Guarantees	No / 0
	KfW	Water/Sanitation	66.0	6.2	2.5	TA	Yes / 1
	KfW, EIB, EBRD	Energy	166.1	13.4	13.4	TA/Equity	Yes / 2
	EBRD	Private	21.1	16.0	0.0	TA	No / 0
	EBRD	Energy	64.6	5.3	2.1	TA/Risk capital	Yes / 1
	EBRD, SIMEST	Private	61.5	10.2	0.0	TA/Guarantees	No / 0
	EBRD , EIB , NIB	Energy	210.0	30.6	30.06	Grant	Yes / 2
	EIB , KfW	Mixed	520.0	12.3	12.3	TA	Yes / 2
	EBRD	Private	380.0	19.4	0.0	TA/Guarantees	No / 0
	EIB	Private	681.0	62.4	0.0	TA/Guarantees	No / 0
	EBRD	Private	53.3	5.0	0.0	TA/Guarantees	No / 0
		Total	11,947.6	576.3	149.7		

Blending

Blending is the strategic use of a limited amount of grants to mobilise financing from partner financial institutions and the private sector to enhance the development impact of investment projects.

Blending is the strategic use of a limited amount of grants to mobilise financing from partner financial institutions and the private sector to enhance the development impact of investment projects. Blending makes possible projects with low financial returns or elevated risk, but a high economic and/or social return. Typically, blending is best suited for capital-intensive sectors with high project costs, where the cash-flow generated is insufficient for investors but where associated general economic or social benefits (e.g. a healthier environment, access for the poor, affordability) justify a public subsidy. Sectors include energy, transport and environment (water, sanitation) as well as private sector development (micro, small and medium-sized enterprises). EU support is to be additional in that it

- makes the difference between a project going ahead or being blocked, and
- improves project design, quality, timing, sustainability, innovation, impact and/or scale.

Blending operations generally combine a grant element with loans, equity, guarantees or other risk-sharing mechanisms from public development finance institutions and others financiers, including private investors, where relevant. The grant element may be either an explicit grant, where resources are transferred with no obligation or expectation of return, or another form of concessional finance, including various risk mitigation instruments where EU resources are used as guarantees or first-loss cover.

ELEMENTS OF 'ADDITIONALITY' IN BLENDING OPERATIONS

Economic and financial

What are the economic benefits of the grant funding proposed? Why is the proposed grant funding necessary for operation?

Project Scale

How will the grant funding increase the scale of the project? Will it widen the results of the operation, or extend benefits to more people?

Timing

In what way does the grant element have a positive effect on the timing of the operation and/or the benefits it is expected to deliver?

Project quality and standards

How will the grant funding improve the quality of outcomes expected from the operation? How will the grant funding improve the project's chances of success? How will the grant enable promotion of higher standards (including social and environmental) and more substantial social or global public good returns than would otherwise be possible?

Innovation

What are the innovative aspects of the project that could not be generated by or within the target environment without grant support? Why is the proposed innovation important?

Policy and sustainability

Does the grant funding help support further or parallel activities to ensure that benefits continue beyond the life of the project? For example, does the grant funding contribute

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Blending operations generally combine a grant element with loans, equity, guarantees or other risk-sharing mechanisms from public development finance institutions and others financiers, including private investors, where relevant.

to structural reforms or support changes to legislation, regulation or policy? Does the grant funding enable demonstration effects to other participants in the marketplace?

Other benefits

Are there any significant benefits outside of the main/primary objectives of the loan operation that grant funding could bring?

REQUIREMENTS FOR A BLENDING OPERATION UNDER THE NIF

The EU´s financial regulations (for the EU budget and for the European Development Fund) set out specific requirements for financial instruments.

- Market failure: Financial instruments should address market failures or sub-optimal investment situations which have proven to be financially viable but do not give rise to sufficient funding from market sources.
- Additionality: Financial instruments shall not be aimed at replacing those of a Member State, private funding or another EU financial intervention.
- Leverage effect: The EU contribution shall aim at mobilising a global investment exceeding the size of the EU contribution according to the indicators defined in advance.
- Alignment of interest: The Commission shall ensure that there is a common interest between the Commission and the entrusted entity in achieving the policy objectives defined for a financial instrument, possibly fostered by provisions such as co-investment, risk-sharing requirements or financial incentives.
- Ex ante evaluation: Financial instruments should be established on the basis of an ex ante evaluation.
- Reporting: The Commission shall report annually to the European Parliament and the Council on activities relating to financial instruments.
- Entrusted entities: To select entities entrusted with the implementation of financial instruments, the Commission shall publish a call to potential entrusted entities, which shall include the selection and award criteria. Entrusted entities should be, whenever possible, the European Investment Bank (EIB), a multilateral European financial institution such as the European Bank for Reconstruction and Development (EBRD), or a bilateral European financial institution.

About the Neighbourhood **Investment Facility**

The European Neighbourhood Instrument (ENI) is the funding mechanism for implementing EU policy in the Neighbourhood covering the current planning period (2014 – 2020). It ensures support is available for a wide range of interventions to reduce the social, economic and political barriers between the EU and its neighbours and to extend EU policy initiatives also to them. Bilateral and regional assistance aims to promote human rights, the rule of law, a vibrant democracy and thriving civil society. It supports sustainable and inclusive growth, economic, social and territorial development, and progressive integration in the EU internal market, as well as regional integration, connectivity and cross-border cooperation.

One of the ENI´s tools is the Neighbourhood Investment Facility (NIF), which aims to stimulate investments in crucial infrastructure, business opportunities for small and medium-sized enterprises (SMEs) and a healthy, educated workforce. Capital investments of this type are a challenge to governments of the Neighbourhood and private investment flows have historically been low.

The NIF responds to precisely this challenge by building on a country's own financial capacity and leveraging significant additional resources. Partner countries can access loans, guarantees or other risk sharing arrangements from European Financial Institutions (EFIs) to finance critical infrastructure, public services and private sector development, complementing NIF grants and maximising the impact of EU funding. These projects are accompanied by tailor-made technical assistance and, even more importantly, embedded in the EU's support to, and policy dialogue with, a given partner country.

GOVERNANCE

The NIF is characterised by open and transparent project selection and decision making processes, and by full accountability on the management of funds to the European Parliament and Council, and to the EU Court of Auditors. The European Commission chairs the NIF Board, which draws members from the European Commission (EC), EU Member States and the European External Action Service (EEAS) as voting members, and European Financial Institutions (EFIs) as observers. Member State involvement ensures NIF interventions are fully in line with wider EU Neighbourhood policy and external cooperation goals, and effective donor coordination between Member States. Once a year, a dialogue on the strategic orientations for the NIF is held with the partner countries from the Neighbourhood and regional organisations.

PROJECT ASSESSMENT AND FUNDING PROCESS

The NIF Secretariat, managed by the EC Directorate General for Neighbourhood and Enlargement Negotiations (DG NEAR), acts as the single entry point for grant requests and follows up the entire assessment and decision-making process, involving different entities as needed.

EFIs interested in financing NIF blending operation, individually or as a consortium, identify a project based on the partner country's priorities and in dialogue with the EU Delegation in that country. A lead EFI is designated and presents the project to the Technical Assessment Meeting, a group chaired by the Commission and including all eligible EFIs. Projects are assessed for their relevance and contribution to EU Neighbourhood policy objectives, to Action Plans agreed between the EU and the partner country, and to NIF strategic priorities and eligibility criteria. The group also considers justifications for the NIF grant request, how it adds value to the project and other aspects related to project quality.

Lead EFIs then present mature grant requests to the NIF Board, which issues an opinion as to which projects will benefit from NIF funding. If the project is to be funded from the NIF Trust Fund, the Board's approval is final. Where funding is to come from the EU budget, its opinion is subject to a subsequent financing decision by the Commission.

ELIGIBLE EUROPEAN FINANCIAL INSTITUTIONS

Both multilateral European Financial Institutions and Financial Institutions of EU Member States can request NIF funding for investment projects in the Neighbourhood, either taking the lead in a project or as co-financing institutions in consortium with other eligible European Financial Institutions. Non-European Financial Institutions may also participate as Co-financing Institutions.

Multilateral eligible European Financial Institutions include:

- European Investment Bank (EIB)
- European Bank for Reconstruction and Development (EBRD)
- Council of Europe Development Bank (CEB)
- Nordic Investment Bank (NIB)

EU Member State institutions include:

- Agence Française de Développement (AFD)
- Agencia Española de Cooperación Internacional para el Desarrollo (AECID)
- KfW Entwicklungsbank (KfW)
- Oesterreichische Entwicklungsbank AG (OeEB)
- Società Italiana per le Imprese all'Estero (SIMEST)
- Sociedade para o Financiamento do Desenvolvimento (SOFID)

Glossary

European Neighbourhood: countries in close proximity to the EU, to the south (Southern Neighbourhood) and east (Eastern Neighbourhood).

European Neighbourhood Policy (ENP): the policy framework for the EU's relations with its partner countries in the Southern and Eastern Neighbourhood defined in 2007 and reviewed in 2015.

European Neighbourhood Instrument (ENI): makes available different financial tools to support implementation of different aspects of the ENP. It was set up in 2014.

The Neighbourhood Investment Facility (NIF): an important ENI tool to support economic and social development. The NIF was established in 2007 and became operational in 2008.

NIF
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FOR MORE INFORMATION:

European Commission, Directorate-General for Neighbourhood and Enlargement Negotiations
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