



European  
Commission

# IFCA

Investment Facility  
for Central Asia

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# AIF

Asia  
Investment Facility

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# IFP

Investment Facility  
for the Pacific

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2015  
OPERATIONAL  
REPORT



*International  
Cooperation and  
Development*

## EUROPEAN COMMISSION

Directorate-General for International Cooperation and Development

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# INTRODUCTION

## 2015 Operational Report

The Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF) and the Investment Facility for the Pacific (IFP) are three of the EU's regional blending facilities - innovative financial instruments that use EU development grants to leverage additional investment from European and regional finance institutions to implement key infrastructure projects in partner countries.

This report, which covers the facilities' operational activities in 2015, provides a detailed overview of projects funded in a wide range of sectors, from the private sector, transport and energy, to water and sanitation, waste management and the environment. The report also provides an overview of how the three investment facilities support the EU's development priorities in their respective regions by supporting beneficiary countries' efforts to adapt to and mitigate the impacts of climate change. Private sector engagement is also a key EU development policy objective and, here too, the IFCA, AIF and IFP support policy goals by tapping into the potential of the private sector as a driver of sustainable and inclusive development to ensure that development assistance has the widest possible impact and makes a maximum contribution to economic growth and job creation and, consequently, to the eradication of poverty.

Since it was launched in 2010, the IFCA has provided EUR 119 million in contributions<sup>1</sup>, leveraging approximately EUR 830 million in financing for crucial capital-intensive infrastructure projects in partner countries. Also launched in 2010, the AIF has supported 18 projects in a range of sectors, with a combined contribution of EUR 89 million leveraging almost EUR 2.63 billion. The IFP, which was launched in 2012, has made a more modest, but no less impactful contribution of approximately EUR 10 million towards projects with a total investment cost of EUR 310 million.

The three investment facilities leverage the funds needed to finance capital-intensive projects in key sectors in beneficiary countries. Thanks to this investment, the IFCA, AIF and IFP speed up the development of vital development projects that might otherwise be postponed due lack of finance or non-affordable funding costs. This report covers the fifth year of activity for the IFCA, the fourth for the AIF (although launched in 2010, the first grants were not finalised until 2012) and the second full year for the IFP. In addition to detailed overviews of projects approved last year, the report also provides analysis of the overall impact of the three investment facilities since their respective launches.

# IFCA

Investment Facility  
for Central Asia

# AIF

Asia  
Investment Facility

# IFP

Investment Facility  
for the Pacific

1. Number refers to projects adopted by the Commission in 2015.

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IFCA / AIF / IFP

## FOREWORD

Neven Mimica



During the European Year for Development in 2015, we witnessed many events that will help steer the course of the European Union's ongoing relationship with partner countries around the world, including Central Asia, Asia and the Pacific region. Last year, the EU launched a consultation process on the future of its partnership with African, Caribbean and Pacific countries, in an effort to pinpoint the issues on which this future partnership should focus and the instruments that can be used to make the partnership an effective vehicle to promote our common interests as we work towards the implementation of the 2030 Agenda for Sustainable Development.

The investment needs will be enormous if the goals set in this Agenda, and other sustainable development objectives, are to be effectively met. In recognition of this, the EU has increased its external development assistance for 2014-2020 to a total of EUR 96.8 billion, including EUR 30.5 billion which has been made available under the 11<sup>th</sup> European Development Fund (EDF) and almost EUR 19.7 billion under the Development Cooperation Instrument (DCI).

Impressive as these figures sound, it is already clear that development assistance alone will be insufficient to achieve the sustainable development objectives of our partner countries. It will be necessary to leverage additional loans or equity financing from the public and private sector to meet the requirements of capital-intensive environmental, energy and water projects in the Central Asian, Asian and Pacific region. This is where blending will play a key role.

Blending is an innovative financial mechanism that allows the strategic use of EU development assistance to attract the additional finance needed to implement infrastructure projects in areas vital to the economic development of our partner countries. In the eight years since it was launched, the mechanism has seen approximately EUR 2.7 billion in EU assistance being used to unlock an estimated EUR 50 billion in investment. Hence, this mechanism continued to prove its efficacy in 2015, as the projects implemented last year under the Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF) and Investment Facility for the Pacific (IFP) clearly demonstrate.

I am not only committed to providing more aid to Central Asia, Asia and the Pacific region, I am committed to ensuring that this aid is more effective and is delivered precisely to those people most in need of it. The IFCA, AIF and IFP facilities will continue to play a key role in achieving this objective. Last year I had the opportunity to travel to countries in the Asian and Pacific region to witness the excellent work that is being carried out in the field and to see for myself the impact of the development assistance provided by the EU. This impact has been impressive, but much remains to be done. By enabling effective investment in green infrastructure, sustainable energy, environmental protection and private sector development, the IFCA, AIF and IFP will continue to help the EU strengthen its role in promoting development and fulfil its responsibility in eradicating poverty and ensuring a sustainable future for all.

Neven Mimica  
European Commissioner, International Cooperation and Development

A handwritten signature in black ink, appearing to read 'Neven Mimica', written in a cursive style.



# IFCA

## Investment Facility for Central Asia

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The European Union launched the Investment Facility for Central Asia (IFCA) in 2010 to help address the challenges faced by Central Asian countries in financing key infrastructure, particularly in the energy, environment and social sectors. A key aim of the facility is also to engage the private sector, particularly small and medium-sized enterprises (SMEs), in the development process.



Modelled on the Neighbourhood Investment Facility and the EU-Africa Infrastructure Trust Fund, the IFCA is a blending mechanism that uses grant funding to leverage loans from finance institutions to implement capital-intensive infrastructure projects in five countries in Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The IFCA contributes to achieving the policy objectives of the Development Cooperation Instrument and the Regional Strategy for Central Asia. It also addresses cross-cutting challenges, such as the need to adapt to and mitigate the effects of climate change. Pooling resources through the IFCA helps improve the coordination and coherence of donor actions in support of partner countries as they work towards their sustainable development goals.

The IFCA Board, which comprises representatives from the European Commission, Member States and the European External Action Service, works closely with the European Commission to ensure overall coherence of IFCA operations. The European Commission's contribution to the IFCA is decided annually. The initial financial allocation made to the facility in 2010 was EUR 20 million. A further EUR 65 million was provided for the period 2011-2013. An allocation of roughly EUR 140 million is foreseen for the period 2014-2020.

The financing instruments available under the IFCA are:

- Direct investment Grants
- Guarantees
- Interest Rate Subsidies
- Technical Assistance
- Risk Sharing Mechanisms

The funding leveraged through these instruments is used to finance projects that improve energy infrastructure, increase environmental protection, promote small and mid-sized business and improve social services and infrastructure in beneficiary countries.

The IFCA supports the development priorities of partner countries and helps them to raise the finance needed to implement priority infrastructure projects, ensuring that development assistance is not only impactful, but also benefits the greatest possible number of people.

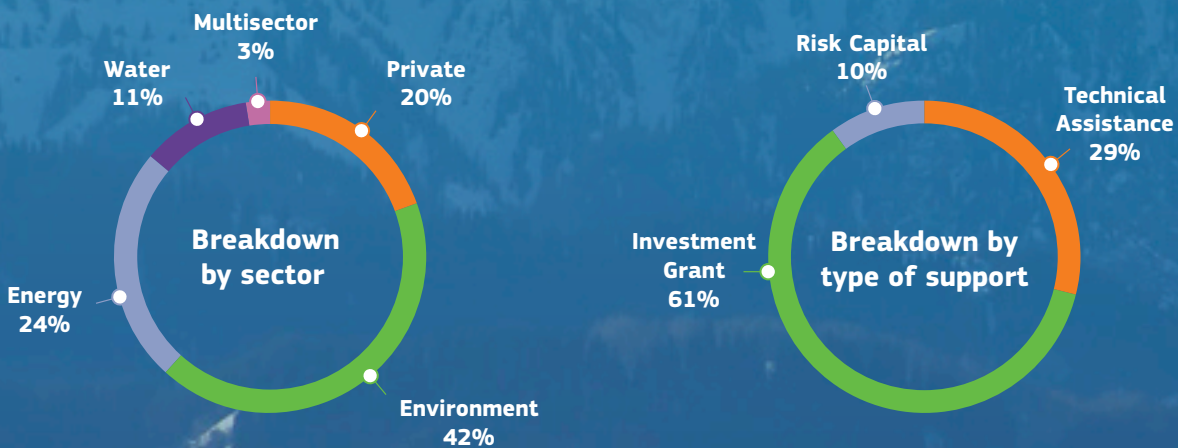
# IFCA

## AT A GLANCE

The European Commission allocated an overall amount of €145 million to the IFCA for 2010-2015



### IFCA portfolio 2010-2015



### Key IFCA figures 2010-2015

IFCA resources allocated to 22 approved projects

€ **119**  
million

EFI financing to approved projects

€ **553**  
million

IFCA contribution leveraged total investment of

€ **830**  
million



Regional  
**€29.3** million / **4** projects

Kazakhstan  
**€11.8** million / **4** projects

Uzbekistan  
**€8** million / **1** project

Kyrgyzstan  
**€52.4** million / **9** projects

Turkmenistan  
**€3.5** million / **2** projects

Tajikistan  
**€14** million / **2** projects

Development Cooperation Instrument (DCI)  
 countries directly eligible under the IFCA

€ Total volume of IFCA contribution approved



## 1. OVERVIEW

In 2015 the Commission approved six projects, involving a total IFCA contribution of €37.5 million to projects with a total investment cost of €366 million which equates to almost €10 leveraged by every euro provided by the IFCA.

All of the projects approved in 2015 had a national rather than a regional focus. In terms of project numbers, Kyrgyzstan accounted for the lion's share - with five of the six projects located in this republic. The five Kyrgyz projects will require total investment of €164 million, leveraged from a combined IFCA contribution of €35.5 million. In terms of total budget, the DAMU Green Loan programme in Kazakhstan is the largest single project approved in 2015. This project will see total investment of €202 million, with an IFCA contribution of €2 million.

The largest of the five projects approved in Kyrgyzstan is the Value Chain Agro Finance project, which aims to enhance the competitiveness of the agri-food value chain in the republic by increasing the availability of long-term finance for the acquisition of agricultural equipment and machinery. Also in Kyrgyzstan, the Support for Water and Wastewater Investments project aims to provide grant co-financing to support projects that will benefit municipalities and their water companies by addressing urgently needed infrastructure rehabilitation needs.

The third project in the republic, the Oshelectro Rehabilitation Project, will result in upgraded facilities at this important utility in the republic's second largest city. The Osh and Jalalabad Solid Waste Projects will finance critical solid waste investments in the Kyrgyz cities of Osh, Jalalabad and their neighbouring municipalities. Finally, the Kyrgyzstan Sustainable Energy Efficiency Financing Facility will support sustainable energy investments in Kyrgyzstan by developing project-oriented skills among finance institutions in the republic and enhancing their capacity to finance climate-focused projects.

In terms of sectoral distribution, there is a diverse range among the projects approved in 2015. The energy sector accounts for two of the projects approved, with a combined IFCA contribution of €10.3 million and a total budget of €49 million. The private sector, water and sanitation, solid waste management, and the environmental sector account for the remaining four projects.

Three of the projects approved by the Commission in 2015 combine investment grants with technical assistance, two projects involve an investment grant alone and one project consists solely of technical assistance. In total, the investment grant component of the IFCA contributions amounts to €27.7 million (74%), while technical assistance accounted for €9.8 million (26%).

## 2. SUPPORTING EU POLICY GOALS IN CENTRAL ASIA

The core objective of the Development Cooperation Instrument, under which the IFCA is funded, is to reduce poverty by fostering sustainable economic, social and environmental development as well as promoting democracy, rule of law, good governance and respect for human rights.

A European Parliament Draft Report from 2015 on the implementation of the EU Strategy for Central Asia reiterated the EU's strong interest in an economically and environmentally sustainable and prosperous Central Asian region, and noted in particular the priority importance of the energy, environment, water and transport sectors. These priorities are reflected in the projects approved for IFCA finance since the facility's launch, and 2015 was no exception.

Since 2010, the IFCA has been a key tool in support of EU policy goals in Central Asia, providing grants to leverage

funding for projects that promote inclusive and sustainable growth. The facility continued this policy support in 2015, contributing to projects in the energy, water and environmental sectors in Kazakhstan and Kyrgyzstan.

Other key EU policy objectives in the region include supporting climate change adaptation and mitigation efforts and engaging the private sector as a driver of development. Reflecting this policy priority, a number of the projects approved last year contained a climate change element – particularly the energy projects. Likewise, engagement of the private sector was also a key focus, particularly of the DAMU Green Loan project in Kazakhstan and the Value Chain Agro Finance project in Kyrgyzstan. The contribution of IFCA projects to private sector development and climate change mitigation and adaptation is covered in more detail later in this report.

## 3. PROJECTS

### ENVIRONMENTAL POLICY AND SME DEVELOPMENT

#### Damu Green Loan for SMEs and Midcaps

##### KAZAKHSTAN

**Total budget:** €202 million

**IFCA contribution:** €2 million

**Lead finance institution:** EIB (€100 million)

**Co-financiers:** Private co-financing (€100 million)

**Type of IFCA support:** Technical Assistance

The DAMU Green Loan programme will finance projects implemented primarily by small and medium-sized enterprises (SMEs) and in some cases MidCaps, targeted at supporting Kazakhstan's effort to adapt to and mitigate climate change.

The project's objective is to engage the private sector in promoting sustainable development, biodiversity and environmental protection, with the overarching goal of generating income growth and creating employment. To achieve these goals, the project will provide local SMEs and MidCaps with access to long-term finance and build the capacity of local financial institutions to also provide this access. The capacity of local public and private institutions to identify, assess and finance green investment projects will be strengthened, and environmentally-sustainable best practices will be created at SME and MidCap level.

As part of the project, the EIB will provide financing in the form of a loan to "JSC DAMU - Entrepreneurship Development Fund" (DAMU), which will on-lend these funds to selected local financial institutions that will, ultimately, act as co-financiers of eligible individual projects promoted by the SMEs and MidCaps.

Activities targeted under these individual projects include investments in energy efficiency and renewable energy, transport, greenhouse gas reduction, water and sanitation and projects in the agriculture and forestry sectors.

A key lesson learnt from other projects implemented in Kazakhstan is that issues relating to climate change, energy efficiency and environmental protection are still relatively new and of modest importance for most investors. However, they are a priority for the Kazakh authorities, who aim to steer the country along a more sustainable path. The DAMU Green Loan project will support these efforts.

## The Broader Context

Rapid social and economic development has seen Kazakhstan transform itself from a centrally-planned state to one of the fastest growing economies in the world, with per-capita GDP (PPP adjusted) of US\$ 24,228 and a Human Development Index (HDI) of 0,788 in 2014. This economic growth has been mainly fuelled by the oil, gas and mining sectors, and has resulted in inter-regional imbalances, with high poverty levels in rural areas. The Kazakh government recognizes that, as a driver of employment and innovation, the SME sector will play a significant role in removing inequalities in the Kazakh economic system. SMEs in Kazakhstan are more responsive and adaptable than larger enterprises and are key to the country's long-term economic growth and poverty reduction. A number of government initiatives aim to address the barriers faced by SMEs in the republic. The state Roadmap for Business 2020 and the Accelerated Industrial-Innovative Development of Kazakhstan 2010 -2015 provide the general policy framework within which SMEs operate. Limited SME access to finance is a key constraint identified in the 2050 Development Strategy adopted by the government and it is this barrier that the DAMU Green Loan project aims to overcome.



## ENERGY



### Kyrgyzstan Sustainable Energy Efficiency Financing Facility – Extension (KyrSEFF II)

#### KYRGYZSTAN

**Total budget:** €42.54 million

**IFCA contribution:** €9.24 million

**Lead finance institution:**

EBRD (€33.3 million)

**Type of IFCA support:**

Investment Grant (€5.5 million)

Technical Assistance (€3.74 million)

The initial KyrSEFF I project targeted energy efficiency in the residential and business sectors and was the first attempt to use the Financial Intermediation model to support sustainable energy investments in Kyrgyzstan.

Upgrading the energy efficiency of residential infrastructure in the republic will be an extremely capital-intensive process. The European Bank for Reconstruction and Development (EBRD) assesses the demand for very basic and most urgent energy efficiency improvements in the residential sector at approximately USD 15 to 18 billion.

In an effort to meet part of this demand, the KyrSEFF II facility will build on the on-lending infrastructure established

under KyrSEFF I. It will leverage the capacity of the current participating financial institutions (PFIs) and employ technical assistance funds to expand KyrSEFF II to cover new technologies as well as to develop capacity in new PFIs.

Specifically, the facility aims to develop project-oriented skills among PFIs and to enhance their capacity to finance climate-focused projects. It will also provide effective support to improve the capacity of financial intermediaries to appraise and finance resource efficiency, climate adaptation and small renewable energy investment projects. Support will also be provided to local professionals, to improve their ability to identify and prepare technically feasible and bankable projects.

The facility will follow the EBRD's well-proven sustainable energy financing facilities (SEFF) model which combines credit lines with Technical Co-operation (TC) to help financial intermediaries support small-sized sustainable energy projects in the region. As such, it will follow the precepts of KyrSEFF I, with only some slight modifications to expand the investment scope and strengthen its sustainability criteria. All investments supported by KyrSEFF II will be aligned with international best practice as adapted to local market specifics.

KyrSEFF II also aims to implement lessons learnt during 2013/14 as well as from other facilities across the EBRD's countries of operation. To support the implementation of KyrSEFF II credit lines, the strategic use of the IFCA grant resources in the form of TC and incentives will leverage the EBRD financing to overcome persistent barriers to energy efficiency in the residential and industrial sectors.

Sub-projects funded under KyrSEFF II will reduce Kyrgyzstan's energy imports by encouraging the development of renewable energy sources and reducing energy consumption through the implementation of energy efficiency measures.

## The Broader Context

The energy and carbon intensity of the Kyrgyz economy is 30% higher than the average for OECD countries due to the high rate of energy loss, the obsolete condition of energy infrastructure, out-dated and inefficient equipment and a lack of monitoring and control devices. Improving the security of energy supply and increasing energy efficiency have been identified as key principles of the Energy Strategy of the Kyrgyz Republic. Kyrgyzstan still imports 56% of its primary energy supply despite the abundance of hydro-power generating potential in the country, and imports 82% of its fossil fuels.

The Kyrgyz Government has indicated its willingness to pursue policies to promote investments in supply and demand side energy efficiency measures and renewable energy.



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## SOLID WASTE MANAGEMENT



### Osh and Jalalabad Solid Waste Projects

#### KYRGYZSTAN

**Total budget:** €20.56 million

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**IFCA contribution:** €9 million

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**Lead finance institution:** EBRD (€3.5 million)

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**Co-financiers:** EIB (€5.5 million)

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**Type of IFCA support:** Investment Grant

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The Osh and Jalalabad Solid Waste Projects will finance critical solid waste investments in the Kyrgyz cities of Osh, Jalalabad and their neighbouring municipalities. For Osh, the project work will include the construction of a new sanitary landfill, along with a new access road, and the provision of various operating machinery. Another outcome will be the improvement of waste collection through the acquisition of new collection vehicles and waste containers and the renovation of waste collection points.

Meanwhile, in Jalalabad, the project will finance the re-cultivation of a landfill site and the closing of an existing dumpsite in parallel with the construction of a new sanitary landfill. Like in Osh, the Jalalabad project will also include collection and transportation components, including the provision of new containers and waste collection trucks and the renovation of existing collection points.

In addition to the physical investments mentioned above, both projects will include technical assistance in the form of project implementation unit support, engineering design services, and procurement and contract supervision. There will also be corporate development, city support and stakeholder participation programmes, providing support aimed at helping the cities improve their financial and environmental performance and underpinning their institutional capacity to effectively manage the projects.

As five per cent of the health costs in the region are estimated to relate to improper handling of solid waste, the project is expected to have a significant positive impact on the health of people in the affected areas, with fewer incidents of vector-borne and respiratory diseases. There will be benefits for the environment also, with increased protection against ground water contamination.

## ENERGY



### Oshelectro Rehabilitation Project

#### KYRGYZSTAN

**Total budget:** €6.05 million

**IFCA contribution:** €1.05 million

**Lead finance institution:** EBRD (€5 million)

**Type of IFCA support:**

Investment Grant (€1 million)

Technical Assistance (€50,000)

Oshelectro's operating performance is characterised by a low collection rate and high electricity losses. The company's electricity tariffs are below the long-term cost recovery level, resulting in chronic underinvestment and poor financial performance. As a result, the company is struggling to maintain reliable electricity supplies. Moreover, the company reported electricity losses in the range of 17% - 20% in 2011-2013, which are well above the 8% level which is acceptable for the industry.

In order to stop any further degradation of the electricity distribution infrastructure, the company has developed a long-term investment program, with total investment needs estimated at KGS 1.1 billion (EUR 16 million). The program comprises a range of measures to improve the reliability of electricity supply while reducing electricity losses. Due to a lack of long-term financing in the country, the company approached the EBRD with a proposal to consider financing the first stage of its investment program in the amount of up to EUR 5 million.

With this investment the Bank will initiate a restructuring process of the public utility to improve operating efficiency and restore financial health. This will result not only in an improved operating performance and increased transparency, it will commercialise the company's operations. This will be achieved through technical assistance to review current billing and collection practices, as well as help with the restructuring process.

As part of the overall upgrade planned for the company, the IFCA investment grant will be used primarily to finance the installation of a pilot advanced metering system with meters capable of remote disconnection and reading. This capital grant incentive will act as a catalyst to ensure that best available technologies are deployed. The project will be designed and implemented in accordance with EU standards.

Project outcomes will include increased revenue collection and the introduction of more commercial business practices. It will also address energy efficiency improvements, reducing commercial losses and increasing the reliability of power supply. The project envisages a holistic approach with a combination of investment in physical infrastructure and institutional development.

### The Broader Context

The Kyrgyzstan power sector was restructured in the early 2000s, when the sector was unbundled into generation, transmission and distribution segments. The energy sector in Kyrgyzstan has been stagnant for the last decade. Energy reform has stalled and tariffs have remained frozen for the last five years. The Government avoided tackling the sector's long-term issues, as the low running costs of the dominant hydro generation capacity allowed it to keep low tariffs for the end-users across the country. In the wake of very poor hydrology in 2014, Kyrgyzstan became net electricity importer for the first time in its history.



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## WATER AND SANITATION

### Support to the Kyrgyz Republic for Water and Wastewater Investments

#### KYRGYZSTAN

**Total budget:** €40.55 million

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**IFCA contribution:** €11.2 million

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**Lead finance institution:** EBRD €10.5 million

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**Co-financiers:** EIB (€4.25 million),  
SECO (€3.2 million), ADB (€5 million),  
SSF (€2.5 million), multi-donor fund (€6.4 million)

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**Type of IFCA support:** Investment Grant

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This programme aims to provide grant co-financing to support projects that will benefit municipalities and their water companies across Kyrgyzstan by addressing urgently needed infrastructure rehabilitation needs.

Some of the issues that the programme seeks to address include severely deteriorated water supply and wastewater collection infrastructure and the scarcity of wastewater treatment facilities in the country. Furthermore, where facilities exist, their operating and maintenance costs are often extremely high, due to the deteriorated state of the assets. Other issues that the project will tackle include the unreliability of water supply, outbreaks of water-borne diseases and the low institutional capacity to manage sustainable water supply services in the republic.

An EBRD Framework set up in 2011 aims to cover water and wastewater investment in the municipalities of Osh, Naryn, Batken, Karasuu, and Cholpon-Ata. These efforts will be supported by this programme. Implementation of priority investments will promote the achievement of EU standards across the sector and provide access to much needed infrastructure and services for the population.

The EBRD Framework addresses problems in the water and wastewater sector in the Kyrgyz Republic through a number of relatively small but well-designed projects. It is expected that these projects will result in greater numbers of people with access to affordable, drinkable tap water and more efficient water systems with fewer systemic losses. Other outcomes include less untreated sewage being discharged into watercourses, increased energy efficiency in the water and wastewater sub-sector and improved regulatory and enforcement capacity among public sector bodies. All of these efforts will have a related positive impact on public health and the environment.







## PRIVATE SECTOR, AGRICULTURE

### Value Chain Agro Finance

#### KYRGYZSTAN

**Total budget:** €54 million

**IFCA contribution:** €5 million

**Lead finance institution:** KfW (€9 million)

**Co-financiers:** EIB (€40 million)

**Type of IFCA support:**

Technical Assistance (€4 million)

Investment Grant (€1 million)

The Value Chain Agro Finance project aims to enhance the competitiveness of the agri-food value chain in Kyrgyzstan by increasing the availability of long-term finance in local currency for the acquisition of agricultural equipment and machinery. It will also provide working capital to create and support selected value chains across the Kyrgyz Republic for the production of competitive agri-food products in a sustainable way. The project also aims to promote the use of good agricultural practice and best available techniques in processing and distribution. This will increase the competitiveness of Kyrgyz agri-food products on local and regional markets.

By improving competitiveness in this way, and by strengthening sustainable agricultural production and post-harvest practices, the project is expected to generate income growth and create jobs, particularly in disadvantaged rural areas of the Kyrgyz Republic.

These objectives will be achieved by providing sustainable access to long-term finance to small and medium-sized rural enterprises (SMREs) and enabling financial institutions to also provide this access. This will allow SMREs to purchase agri-food machinery and equipment, and training will allow them to efficiently use this equipment. The project also aims to develop and support competitive agri-food value chains and to establish environmentally sustainable agricultural best practices at SMRE level. Not only will this contribute to increased competitiveness and profitability in the sector, it will improve food security in the country.

The IFCA-financed module in the project will contribute to establishing best agricultural practices (including increased resource efficiency) in primary production and providing best available technologies for processing and distribution in the agri-food sector.

The project will help integrate smaller farmers into commercial value chains by standardising production systems and increasing quality and productivity levels at smallholdings. Smallholders will also benefit from improved market access and from access to the technology required to increase their productivity and earnings.

# AIF

## The Asia Investment Facility

The main goal of the Asia Investment Facility (AIF) is to promote additional investments in key infrastructure in partner countries. The AIF was created in 2010 to help achieve the policy objectives of the Development Cooperation Instrument (DCI) and the facility has a priority focus on green investments in the energy, environment and transport sectors with the potential to help countries adapt to and mitigate the impacts of climate change. The facility also focuses on projects that will have a significant social impact, and on engaging with the private sector, particularly small and mid-sized companies (SMEs).



The AIF is one of the EU's blending facilities. These innovative financial instruments provide funds to mobilise loans and other financing for commercially sustainable but capital-intensive projects that promote sustainable, socially inclusive development. In line with the Regional Indicative Programme for Asia 2014–2020, one of the AIF's main objectives is to promote the green economy by leveraging additional investments in key infrastructure, with a priority focus on investments relevant to climate change.

The AIF operates by providing financial contributions to support loans from European national and multilateral development finance institutions to beneficiaries in partner countries. In this way, the AIF provides Asian countries with the possibility to fund large-scale infrastructure projects that might otherwise struggle to leverage the large amounts of financing required from the financial market. In this way, the facility helps implement necessary infrastructure projects that might otherwise be postponed due to a lack of resources or high funding costs.

The types of operations financed under the AIF include:

- Direct investment Grants
- Guarantees
- Interest Rate Subsidies
- Technical Assistance
- Risk Sharing Mechanisms.

The European Commission's contribution to the AIF is decided annually and the resources are made available from the DCI. The European Commission allocated an overall amount of €138 million to the AIF for 2010–2015. The AIF uses these funds to increase the level of investment in the profile sectors mentioned above, resulting in better energy infrastructure, increased protection of the environment and better control of climate changes impacts in beneficiary countries. Other results include the creation and expansion of SMEs, job creation, improved social services and infrastructure, and better and more sustainable transport.

# AIF

## AT A GLANCE

The European Commission allocated an overall amount of €138 million to the AIF for 2010-2015 \*



### AIF portfolio 2010-2015



### Key AIF figures 2012-2015

AIF resources allocated to 18 approved projects

€ **89**  
million

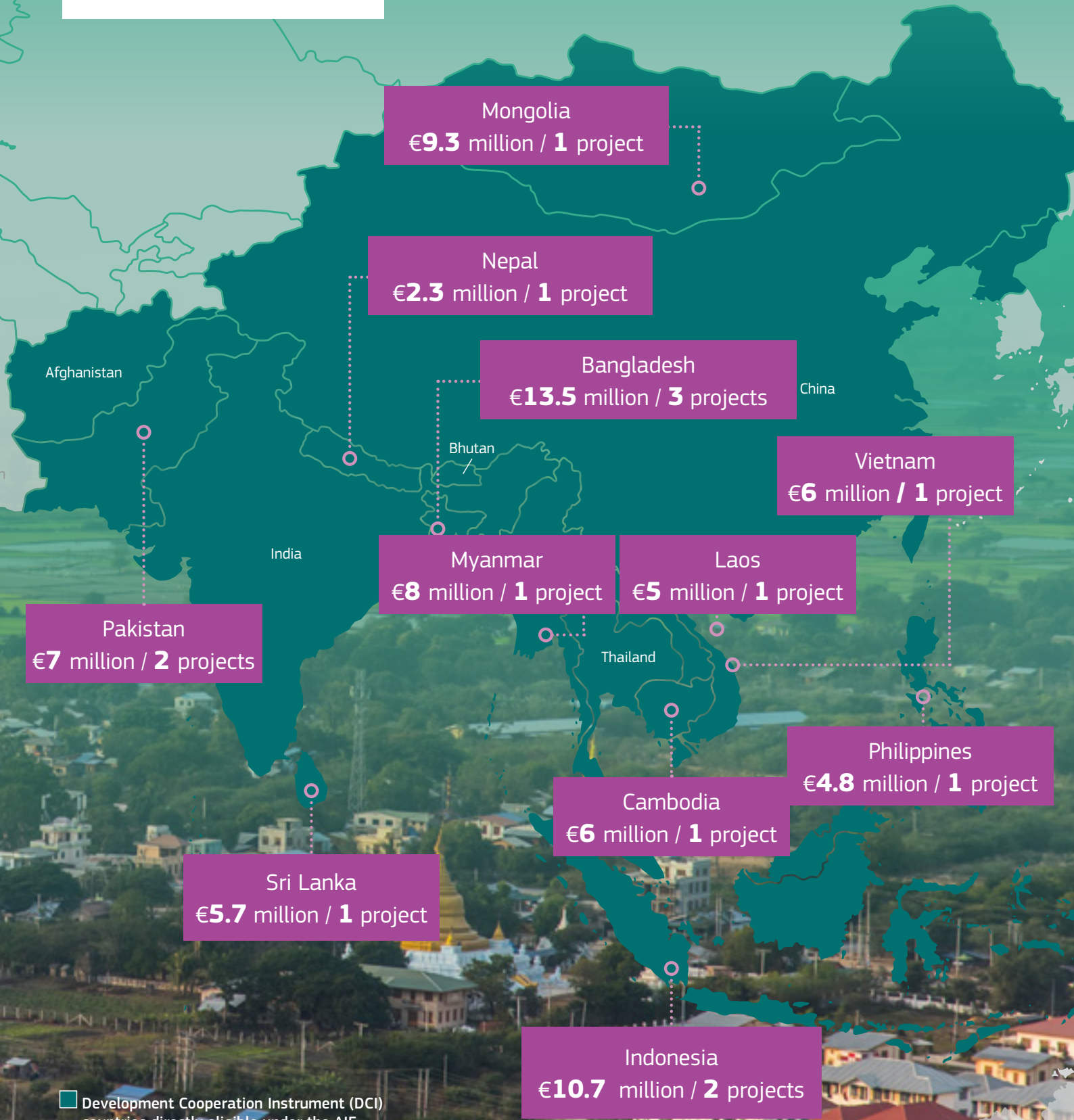
EFI financing to approved projects

€ **1.43**  
billion

AIF contribution leveraged total investment of

€ **2.63**  
billion

Regional  
**€11.1 million / 3 projects**



■ Development Cooperation Instrument (DCI) countries directly eligible under the AIF

€ Total volume of AIF contribution approved



# 1. OVERVIEW

The Commission approved five projects in 2015, with a total AIF contribution of €27.1 million. This contribution will be used to leverage funding for projects involving total investment of €582 million.

Of the projects approved in 2015, one had a regional focus - the technical assistance facility for connectivity and urban development in ASEAN. This programme will provide financing for technical assistance in the form of feasibility studies for investment projects supporting sustainable development in the ASEAN region. The remaining four projects are implemented in the Lao PDR, Mongolia, Myanmar and Indonesia. In terms of overall investment cost, the largest project approved in 2015 was the project of Support for Mongolian Economic Diversification through SME Access to Finance, which is worth a total of €301.5 million, with an AIF contribution of €9.26 million.

The Eco fishing ports project in Indonesia has a total investment cost of €107 million, to be leveraged from an AIF contribution of €3.7 million. This project aims to upgrade six ports selected by the Indonesian government to make them compliant with ISO 14001 environmental standards. Also with an environmental focus, the Mandalay Urban Services Improvement Project (MUSIP) will use an AIF contribution of €8 million to leverage €102 million to improve access to sustainable water and sanitation services in Myanmar's second largest city.

The projects approved in 2015 encompass a range of sectors. The transport sector accounts for two of the projects approved - the Vientiane Sustainable Urban Transport and ASEAN regional projects - with a combined AIF contribution of €6.1 million and a total budget of €71 million. The private and environmental sectors account for two of the remaining projects, while the final project - the Eco fishing ports project - is a multi-sector project, with implications for both the environmental and transport sectors.

All of the projects approved by the AIF board in 2015 have a technical assistance component, with just over €19.5 million in total earmarked for this purpose (70% of AIF contributions). Two projects consist of technical assistance alone, while two combine this assistance with an investment grant component. In total, the investment grant component of the AIF contributions in 2015 amounts to €3.6 million (13%). One project combined technical assistance with €4 million (15%) in guarantees and other support. The AIF contributions of €27.1 million will leverage total investment of €582 million, which equates to almost €22 leveraged by every euro provided by the AIF.

## 2. SUPPORTING EU POLICY GOALS IN ASIA

EU policy in Asia is outlined in various communications and strategy papers, primarily the Regional Strategy for Asia 2007-2013. This strategy established a number of policy priorities, including boosting economic development, particularly through support to small and mid-sized enterprises (SMEs), improving environmental protection (with a particular focus on adapting to and mitigating the effects of climate change), and promoting regional integration.

An in-depth evaluation of the Regional Strategy for Asia was concluded in 2014. Although the final report on this evaluation has yet to be published, preliminary recommendations call for increased outcomes related to energy, the environment and climate change, and an increased focus on regional integration.

With a core objective of promoting investment in the green economy, and a priority focus on climate change, the AIF's goals are fully in line with these EU policy goals in Asia. By providing financial contributions that leverage funds to improve energy infrastructure, increase environmental protection, support SMEs and improve social service and transport provision, the AIF, operating according to the principle of complementarity, supports both EU strategic objectives and the sustainable development goals of beneficiary countries in the sectors in question.

Transport, private sector development and the environment were the principal focus of the AIF projects approved in 2015. In particular, private sector engagement is a key focus of the project of Support for Mongolian Economic Diversification. Climate change is another cross-cutting issue with implications for a number of the projects approved last year – particularly the Eco fishing ports and the Vientiane Sustainable Urban Transport projects, assigned Rio Marker 1 and Rio marker 2 status respectively. AIF impact in both of these policy areas is explored in more detail later in this report.

Another recommendation arising from the Regional Strategy for Asia evaluation was a call for increased burden-sharing within the development context. The shared financial commitment that lies at the heart of the AIF, and the other EU blending facilities, means that this instrument is ideally positioned to continue delivering on this policy objective also.



# 3 . PROJECTS

## MULTI-SECTOR



### Eco fishing ports development pilot project

#### INDONESIA

**Total budget:** €107 million

**AIF contribution:** €3.7 million

**Lead finance institution:** AFD (€99 million)

**Co-financiers:** Government of Indonesia (€4 million)

**Type of AIF support:** Investment Grant  
Technical Assistance

The Eco fishing ports project aims to upgrade six ports selected by the Government of Indonesia (GoI) to make them compliant with ISO 14001 environmental standards. This certification process will minimise environmental impacts at the ports, improve the quality of fish products - bringing them into compliance with EU standards, and improve the management of fishery resources at the ports.

The overall objective of the project is to apply best practice to the management of the ports' environmental impacts, allowing them to be distinguished through an internationally-recognised "eco fishing ports" label based on globally-accepted standards. This, in turn, will increase the added value of these facilities by enhancing their export potential.

The upgrade process will involve redesigning the port spaces with a view to separating technical activities, limiting contamination risks and reorganising wastewater collection and solid waste management. An energy savings programme will also be implemented, involving the construction/rehabilitation of buildings based on environmental and energy best practices. Local governance will be strengthened, to improve management, control and inspection functions, and an accreditation process will be implemented.



To underpin the certification process across all the ports, capacity building exercises will be conducted at the Indonesian Ministry of Fishery and Marine (MMAF), focused on sustainable fishery resource management. The private sector will be engaged in the eco certification process through a specific component aimed at incentivising private companies to comply with the new sanitary and environmental standards.

All investments projects prepared under this programme will be focused on "green" development with climate co-benefits. As such, the project supports EU objectives in terms of promoting a green economy through key infrastructure with a priority focus on energy, climate change, environment and natural resource management and green investments.

The project opens up significant scope for partnerships between European and Indonesian ports. The first such partnership agreement, between Boulogne-sur-Mer (France) and the MMAF, focussing on the fishing ports of Bitung and Kendari, was signed at the end of May 2015.

## The Broader Context

Indonesia is an archipelago of 17 000 islands with 2.7 million km<sup>2</sup> of territorial waters. As such, fishery is at the heart of the Indonesian economy and accounts for an increasing share of its GDP. Approximately 18 million people are considered to be dependent on the sector. The Indonesian fishery sector lands about 5 million tons of fish and crustaceans every year. Hence, fishery accounts for 21% of the agricultural economy.

Despite an existing regulatory and legal framework consistent with international protocols, there are many discrepancies with its application regarding the organisation of port spaces, health quality standards for seafood products, and the management of environmental risks and impacts. These factors are largely attributable to a lack of control and surveillance at port level, and generate a risk that exported products will be rejected for failing to comply with basic sanitary standards.



## ENVIRONMENT



### Mandalay Urban Services Improvement Project (MUSIP)

#### MYANMAR

**Total budget:** €102 million

**AIF contribution:** €8 million

**Lead finance institution:** AFD (€40 million)

**Co-financiers:** ADB (€52 million), UCCRTF (€2 million)

**Type of AIF support:**

Technical Assistance (€5.6 million)

Investment Grant (€2.4 million)

The Mandalay Urban Services Improvement Project (MUSIP) aims to improve access to sustainable water and sanitation services in Mandalay, the second-largest city in Myanmar,

and to enhance the service provision capacity of Mandalay City Development Committee (MCDC).

The general objective of the project is to assist MCDC in its strategy to turn Mandalay into a Green City, with a particular focus on improved environmental performance, equity in service provision and improved finances. More specifically, the project aims to provide a reliable and sustainable public water service in Mandalay. Another key objective is to improve access to sanitation and reduce the amount of wastewater discharged directly into the environment and to enhance local capacities for public services management.

The project, which results from a feasibility study co-financed by the Asian Development Bank (ADB) and the Agence Française de Développement (AFD), will be divided into three components - aimed at achieving the goals outlined above.

MUSIP supports the AIF objective of promoting a green economy through its contribution to sustainable water resource management, by sustaining the groundwater table, improving the efficiency of water use and reducing pollution. The project will also have a social impact by increasing access to clean drinking water and sanitation. By improving the drainage system in the city, the MUSIP project will also have an environmental impact, by reducing the frequency and intensity of flooding.



## PRIVATE SECTOR - SMES

### Support for Mongolian Economic Diversification through SME Access to Finance

#### MONGOLIA

**Total budget:** €301.51million

**AIF contribution:** €9.26 million

**Lead finance institution:** EBRD (€132.5 million)

**Co-financiers:** Open to all eligible European financial institutions

**Type of AIF support:** Guarantees and Technical Assistance

Access to finance has been identified as the number one constraint to SME growth in Mongolia. Within this context, the Support for Mongolian Economic Diversification through SME Access to Finance programme aims to support private sector development by addressing the specific financing and non-financing needs of SMEs. The programme will target micro, small and medium-sized enterprises in a variety of industries, excluding the mining and extractive industries sectors. By improving access to finance for SMEs, the programme will contribute to the overarching goal of facilitating economic diversification in Mongolia.

The programme is proposed as an EBRD-EU partnership to support SME private sector development, and therefore includes an integrated approach combining all the EBRD's activities in SME development. Structured as a blending facility, the programme will combine grants from the EU, EBRD financing, financing by local financial institutions and grants from other donors.

The programme consists of five instruments. Instrument 1 will improve and increase SME access to finance through loans to Mongolian commercial banks for on-lending to SMEs. Instrument 2 will improve and increase SME access to finance through risk sharing and co-financing with local banks and microfinance institutions. Instrument 3 will

expand alternative financing products that are not readily available from local financial institutions. Instrument 4 will provide business advice to mostly micro, small, and medium companies and, under Instrument 5, policy dialogue will be conducted to improve the business environment, develop new financial products, and strengthen business associations.

The proposed programme builds on the existing EU-funded project "Support to SME Development in Mongolia" This project also integrates business advice and policy dialogue and is set to wind down just as the new programme starts ramping up.

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## TRANSPORT, ENERGY, URBAN DEVELOPMENT

### Technical Assistance facility for connectivity and urban development in ASEAN

#### REGIONAL

**Total budget:** €1.1 million

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**AIF contribution:** €1.1 million

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**Lead finance institution:** AFD

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**Type of AIF support:** Technical Assistance

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The technical assistance facility for connectivity and urban development in ASEAN will provide financing for technical assistance in the form of feasibility studies for investment projects supporting sustainable development in the ASEAN region, with a special focus on connectivity and urban development. The facility's main objective is to support the implementation of the Master Plan for ASEAN Connectivity (MPAC), with a secondary goal of supporting sustainable urban development in the ASEAN region.

## The Broader Context

ASEAN's rapid development and growing urbanisation has increased the demand for efficient and resilient infrastructure. A well-connected ASEAN will bring people, goods, services and capital closer together. At the same time, the sustainable development of cities is key to fostering economic competitiveness, social welfare and climate change resilience. The estimated infrastructure needs in the Asia and Pacific region are large, estimated at about US\$ 750 billion / year during 2010-2020. Sustained economic growth in the region has created huge pressure on the infrastructure in the ASEAN region. ASEAN Member States have been concerned about the critical need to address infrastructural inadequacies based on a clear recognition that infrastructure development is essential to the realisation of ASEAN's global economic integration. The AFD's mandate in Asia is to foster inclusive and green growth and, as such, it is fully in line with EU Asia Investment Facility's objectives of limiting the environmental footprint of rapid development and contributing to social cohesion in the region.

Under the facility, a number of investment projects that will contribute to connectivity and urban development in the ASEAN region will be identified and designed. Furthermore, the MPAC already covers a list of potential projects that could be further investigated under this facility, including the completion of the Singapore–Kunming Rail Link, with the construction of missing sections in Cambodia, Vietnam and Thailand. Other potential projects include the Melaka–Pekanbaru and the West–Kalimantan–Sarawak grid inter-connection projects between Malaysia and Indonesia.

In terms of sustainable urban development, there are pressing needs in every country in ASEAN. In addition to the projects listed above, the “Asian Green Cities” initiative fostered by the ADB and the knowledge-sharing program “Urban Green Growth in Dynamic Asia” steered by the OECD, also provide for many opportunities.

The Facility will finance 3 to 4 feasibility studies over a period of 2 to 3 years, in preparation for future investment projects to be financed by the Agence Française de Développement (AFD) and/or co-financed by AFD and another financing partner.

The project’s primary outcome will be greater connectivity within ASEAN and between ASEAN Member States, thereby facilitating the smooth achievement of the ASEAN Community. The facility’s investment projects will deal with transport infrastructure between and within ASEAN countries, including railway links, maritime and port infrastructure and inland waterways – all of which will be low-carbon systems. Another focus will be energy infrastructure, in order to increase the security of energy supply in the ASEAN region. Finally, the facility’s projects will cover urban services such as urban transport and traffic management, and water, wastewater and solid waste management.

## URBAN DEVELOPMENT, TRANSPORT

### Vientiane Sustainable Urban Transport Project

#### LAO PDR

**Total budget:** €70 million

**AIF contribution:** €5 million

**Lead finance institution:** EIB (€20 million)

**Co-financiers:** ADB (€26 million), OFID (€11 million), GEF (€1 million), Private Sector (€5 million), Government (€2 million)

**Type of AIF support:** Technical Assistance



The Vientiane Sustainable Urban Transport Project will support the piloting of a sustainable urban transport (SUT) system in Vientiane, in preparation for the rolling out of the piloted system in other urban areas in the Lao PDR.

The project will focus on three components. Firstly, it will support the establishment and operation of a pilot environmentally sustainable transport agency, in the form of an integrated urban transport organisation. Secondly, the project foresees the provision of a pilot Bus Rapid Transit (BRT) system and, finally, the development of a demonstration traffic management scheme including a parking structure and facilities.

The project will contribute to the development of the Vientiane city core area in an environmentally sustainable and pedestrian-friendly manner and will result in improved urban transport capacity and operations in Vientiane.

Development of private sector involvement in achieving these outputs will be a key objective during the preparation stage of the project. Based on preliminary indications, private sector involvement is most likely in the operation of the public transport service and parking facilities.

One of the main objectives of the project is to reduce urban pollution and greenhouse gas (GHG) emissions by promoting the efficient use of public and non-motorized transport, while managing the use of private vehicular traffic. In terms of its social impact, the project will mitigate the health and safety risks associated with unplanned urban traffic. Furthermore, it will make public transport in Vientiane more affordable and contribute to increased tourism, the economic benefits of which will be widely felt.

# IFP

## The Investment Facility for the Pacific

Launched in 2012, the IFP responds to the need to support investment in projects that aim to boost economic growth and contribute to poverty reduction in the Pacific region. Funded under the European Development Fund, the IFP is designed to promote “green” investments in sustainable energy, transport, water and sanitation, environmental protection, private sector development and improved social service delivery. The island states of the Pacific are also particularly vulnerable to the impacts of climate change and, as a result, efforts to adapt to and mitigate these impacts are a core element of the IFP strategy.

IFP contributions support investments in projects located in the Pacific region namely: the Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu. Regional operations are also eligible.

The IFP resources come from the European Development Fund (EDF), the EU's multi-annual funding instrument to support countries in the African-Caribbean-Pacific (ACP) region. For the period 2012-2015, the European Commission allocated from

10th EDF intra-ACP resources an overall amount of €10 million. For the new 11th EDF programming period 2014-2020, the European Commission doubled the indicative allocation for the IFP to €20 million.

The IFP intervenes in cases where the market fails to offer sufficient or affordable financing, which may hinder the timely realisation of high-priority investment projects with the potential to promote inclusive and sustainable socio-economic development.

By adhering to the principle of complementarity and supporting the policy priorities



of countries in the region, the IFP help to cement the Pacific-EU Partnership. Based on the leverage effect of its operations, the IFP encourages additional investment into the Pacific region and supports the development of an enabling environment for future investors. The IFP translates the objectives of the Paris Declaration and the Accra Agenda for Action into practice. These objectives call for increased efficiency and effectiveness of European external cooperation through enhanced coordination, division of labour and harmonisation of procedures.

The IFP is linked to the Pacific Region Infrastructure Facility (PRIF), a multi-partner coordination and financing mechanism in which the European Commission and the European Investment Bank have participated since 2010. PRIF plays an important role in coordinating the development of better infrastructure services in the region. Information is exchanged between both fora and IFP aims to complement PRIF activities.

# IFP /

## AT A GLANCE

For the 2012-2014 period, the European Commission has committed up to

**€10**  
million

for the IFP from the 10<sup>th</sup> EDF intra-ACP

The commitments have been made in 2014 with the following breakdown:

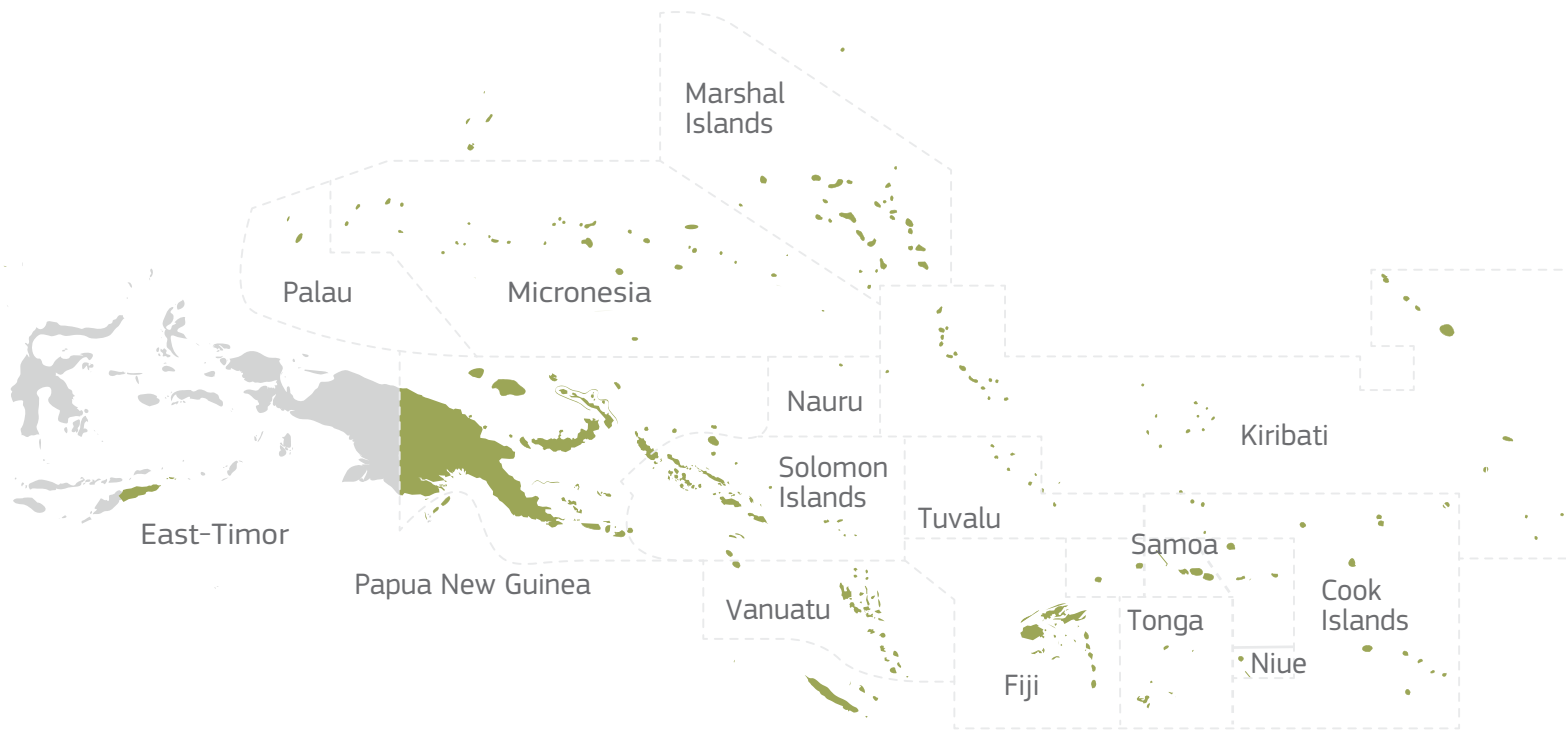
### IFP Portfolio

% total IFP Contribution

**Fiji**  
1 Project  
€ 4.5 million  
49%

**IFP  
Projects**

**Timor-Leste**  
1 Project  
€4.75 million  
51%



## 1. SUPPORTING EU POLICY GOALS IN THE PACIFIC

The IFP is a key mechanism through which the European Union pursues its policy goals in the Pacific region. The 11th EDF IFP is financed from the Regional Indicative Programme for the Pacific and aligned with Priority Area 1 and 2 of the Regional Indicative Programme 2014-2020. Specifically, these Priority Areas relate to regional economic integration (i.e. trade and private sector development) and sustainable management of natural resources and the environment (i.e. sustainable fisheries and waste management).

The projects approved in 2014 for IFP funding are fully in line with these policy objectives. The aims of both the Technical Economic Feasibility Study for Lower Ba Hydropower Development in Fiji, and the PPI Programme in Timor-Leste include the promotion of good environmental management and support for private sector development in the Pacific island countries. Both projects will use IFP contributions to leverage investments which will, in turn, foster sustainable economic growth stemming from the multiplier effects that these sectors have in the economy. In this way, the projects will support the EU's development policy objectives for sustainable and inclusive development and the eradication of poverty in line with the Sustainable

Development Goals. The two projects approved in 2014 consumed all of the funds allocated by the 10<sup>th</sup> EDF for 2012-2015.

Donor coordination is also a key EU priority and, with respect to the two IFP projects, this is formally conducted by means of annual donor coordination meetings to prevent overlapping activities in sectors and/or regions. Relevant EU policies concerning cross-cutting issues, such as human rights, democratisation, gender, security and the environment, are also taken into consideration in the approved projects.

The island states of the Pacific are particularly exposed to the impacts of climate change, particularly rising sea levels. In light of this, the EU aims to support countries in the Pacific in their efforts to adapt to and mitigate these effects. Here too, the IFP supports EU policy goals and, while neither of the projects approved in 2014 contain specific funding to be reported as climate action support, both projects aim to promote practices that encourage climate-change resilience and help the countries involved to reduce their exposure to natural hazards, including those arising from the impacts of climate change.

## 2. PROJECTS

### MULTI-SECTOR

#### Project Preparation & Implementation Programme for Timor-Leste (PPI Programme)

#### TIMOR-LESTE

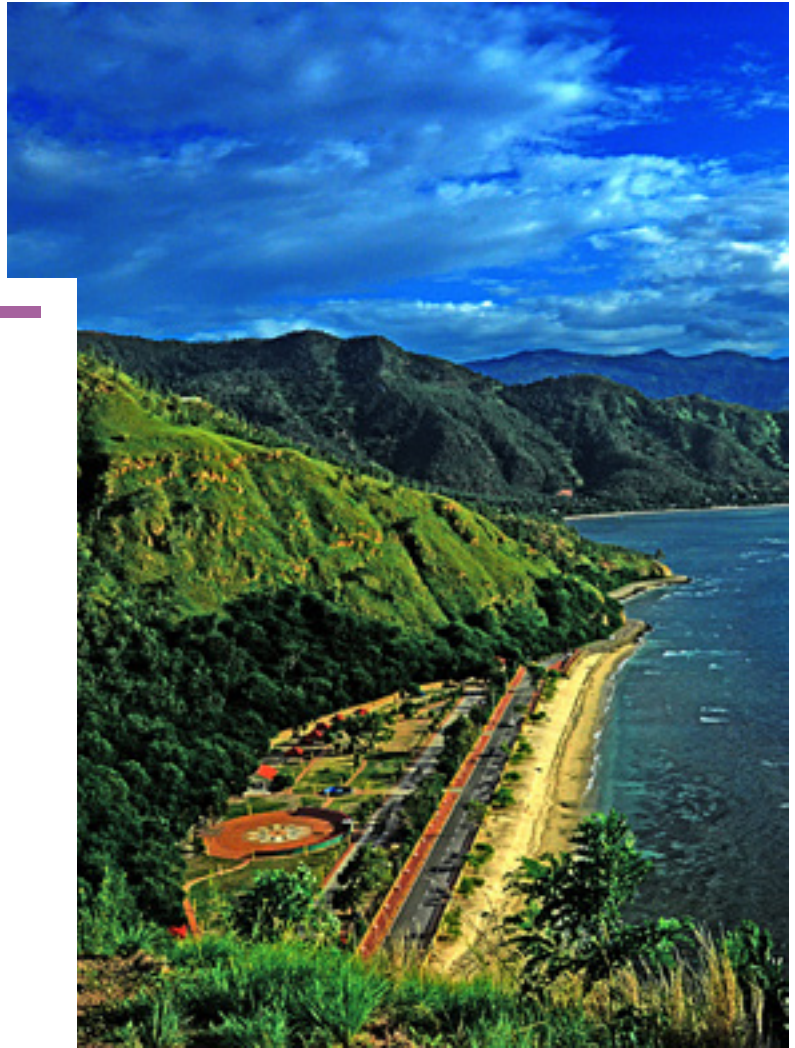
**Total budget:** €4.75 million

**IFP contribution:** €4.75 million

**Lead finance institution:** EIB

**Co-financiers:** Donor co-financing (€100 million), sponsor finance (€50 million)

**Type of IFP support:** Technical Assistance



Following independence in May 2002, Timor-Leste was faced with the need to rebuild the country's infrastructure. Despite remarkable progress in establishing the institutional framework to strengthen good governance and the rule of law, institutional capacity remains a challenge. This is particularly true with respect to capacity for the preparation, execution and maintenance of infrastructure investments.

The Timor-Leste Strategic Development Plan 2011-2030 (SDP) defines an investment strategy 'focused strongly on major infrastructure, skills, and other structural gaps, seeking to generate increased and sustainable private sector investment as a means to enhance job opportunities and reduce poverty for the people of Timor-Leste'.

Within this context, the Project Preparation & Implementation Programme for Timor-Leste (PPI Programme) is preparing a number of investment proposals for infrastructure and/or financial sector development. Where appropriate, these are structured to encourage private sector engagement, in line with the EU's regional and national priorities for Timor-Leste and the SDP.

The main objectives of the PPI Programme include:

- Preparation of a number of investment proposals eligible for subsequent financing by the EIB and other donor agencies,
- Support for the implementation of these projects in coordination with existing donor programmes,
- Support for private sector and stakeholder engagement and for the development of an enabling policy, legal and regulatory environment, and
- Helping to strengthen the institutional capacity of relevant government agencies and project sponsors.

These objectives are aligned with IFP goals, particularly investment in the infrastructure sector, promotion of good environmental management, and support for private sector development, among others.

The investments leveraged by the IFP grant will contribute to Timor-Leste's economic development not only directly, through employment during construction, for example, but also indirectly through improved access to finance for small and medium-sized businesses, improved transport, energy and communication and improved access to local and international markets.






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## ENERGY

### Technical Economic Feasibility Study for Lower Ba Hydropower Development

#### FIJI

**Total budget:** €305 million

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**IFP contribution:** €4.5 million

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**Lead finance institution:** EIB

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**Co-financiers:** Donor co-financing (€100 million), sponsor finance (€50 million), Fijian government (€50 million)

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**Type of IFP support:** Technical Assistance

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Fiji has made significant progress in recent years in improving access to modern energy and in increasing the share of renewable energy sources in electricity generation. The Government of Fiji published a review of its National Energy Policy (NEP) and Strategic Action Plan in 2013. This review concluded that, while performing well, the energy sector still had potential to become more sustainable and environmentally friendly while providing greater energy security and independence.

To help Fiji meet its strategic renewable energy targets and to reduce the country's dependence on conventional thermal generation, the Technical Economic Feasibility

Study for Lower Ba Hydropower Development project will complete feasibility studies for a hydroelectric scheme on the Lower Ba River, working closely with the Fiji Electricity Authority (FEA).

The technical assistance provided as part of this project is aimed at:

- completing technical and economic feasibility studies for the proposed hydropower scheme,
- preparing guidelines and bidding documents for the scheme to be implemented under independent power producer arrangements, and
- providing, when appropriate, transaction support for the award of concessions to the private sector and the application for credits under the Clean Development Mechanism (CDM).

The project will also provide support to FEA research and development of new non-hydro renewable energy resources including, amongst others, wind. It will also ensure comprehensive and timely consultation with all relevant stakeholders, including civil society and regional donor partners via the Pacific Regional Infrastructure Fund (PRIF), in particular to address co-financing opportunities with partners.

The IFP grant is expected to leverage donor financing by acting as seed capital that will absorb the risk of early stage project development, thereby incentivising and leveraging much higher levels of investment from diversified sources including existing donor programmes, as well as the private sector and commercial banks.

# On the frontline of the battle against climate change

The impacts of climate change are profound, both in developed and developing countries. The world is facing serious challenges due to climate change, requiring timely and appropriate measures that demand significant resources.

In December 2010, developed countries committed to the goal of jointly providing funds, increasing to US\$100 billion per year by 2020, to address the needs of developing countries for significant mitigation actions to be implemented in a transparent way. In order for the EU to meet its commitments in terms of climate finance, as announced by EU Commissioners Füle, Hedegaard and Piebalgs in November 2010, specific Climate Change Windows (CCWs) were created in the EU regional blending facilities. The CCWs encompass both public and private investments in strategic areas such as transport, energy, environment, water, sanitation and forests.

The main objectives behind the establishment of Climate Change Windows (CCWs) in the EU regional blending facilities are as follows:

1. Establish a tracking system for climate change related operations;
2. Ensure transparency of EU financing of climate change projects, including by making a distinction between programmed funds within geographical instruments and new, additional resources;
3. Guarantee better tracking and EU visibility for all its climate actions;
4. Mainstream the fight against climate change in projects (co)financed by the EU;
5. Attract additional financing for climate change.

The tracking system is based on the contribution of each project to the climate mitigation and/or adaptation objectives of the Rio Convention on Climate Change:

- Rio Marker 1: projects where the contribution to mitigating and/or adapting to climate change represents a significant objective (40% of the LAIF/CIF contribution can be reported as climate action support);
- Rio Marker 2: projects where the contribution to mitigating and/or adapting to climate change represents the principal objective (100% of the LAIF/ CIF contribution can be reported as climate action support).

#### **Mitigation measures include:**

- Limiting the emission of greenhouse gases caused by human activity;
- Improving energy efficiency and increasing energy saving;
- Increasing the production and use of renewable energy;
- Protecting and/or enhancing greenhouse gas sinks and reservoirs.

#### **Adaptation measures include:**

- Reducing human and environmental vulnerability to the impact of climate change;
- Promoting climate change adaptation technologies, including the related infrastructures;
- Measures for emergency prevention and preparedness to cope with natural disasters.

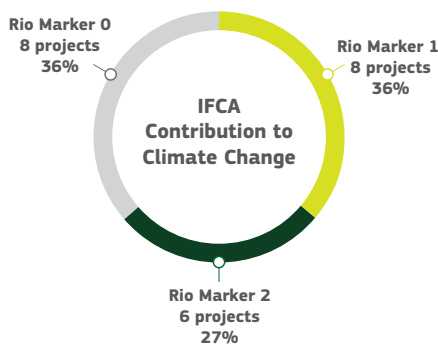
At the 21<sup>st</sup> Session of the Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) in Paris in December 2015, countries pledged to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

## RESULTS

### IFCA

Of the 22 IFCA contributions approved between 2010 and 2015, 14 have a climate action component. From a total IFCA contribution of over €119 million, almost €49 million can be reported as climate action support according to the Rio Convention on Climate Change (Rio Marker 1: 40% of the IFCA grant, Rio Marker 2: 100% of the IFCA grant contribution).

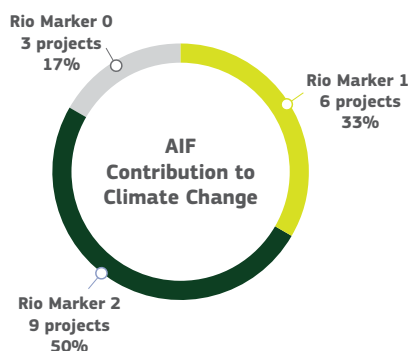
Of the 14 projects with a climate action component six can be reported as Rio Marker 2, with IFCA contributions to be reported as climate action support totalling almost €34 million. Another eight projects were reported as Rio Marker 1, with IFCA contributions to be reported as climate action support totalling almost €15 million.



### AIF

Between 2012 and 2015, 15 of the 18 AIF contributions target climate actions. Out of the €85 million AIF contribution approved, just over €54.2 million can be reported as climate action support according to the Rio Convention on Climate Change (Rio Marker 1: 40% of the AIF grant, Rio Marker 2: 100% of the AIF grant contribution).

Nine AIF contributions can be reported as Rio Marker 2, involving total AIF contributions to be reported as climate action support of almost €41.7 million. Another six projects were reported as Rio Marker 1, with AIF contributions to be reported as climate action support of €12.5 million.



## CASE STUDY

### KYRSEFF II

#### KYRGYZSTAN

The issue of climate adaptation and mitigation has become more pressing in Kyrgyzstan, as the Kyrgyz government strives to meet its obligations under the UNFCCC and the Kyoto Protocol.



However, local finance institutions have little experience in financing climate-related projects. To address this need, the Kyrgyzstan Sustainable Energy Financing Facility II (KyrSEFF II) will build on the success of KyrSEFF I and will scale-up its investments in sustainable energy opportunities in Kyrgyzstan as well as expanding the scope of the support provided.

Access to finance together with awareness and understanding are crucial for the implementation of any climate adaptation action in the republic. In recognition of this, KyrSEFF II will continue to contribute to the capacity and expertise of banks with limited experience of energy/resource efficiency projects or of climate financing.

The Facility has the following climate-related objectives:

- Development of climate finance capacities and project-oriented skills among PFIs;
- Provision of effective support to (i) improve the capacity of financial intermediaries to appraise and finance resource efficiency, climate adaptation and small renewable energy investment projects and (ii) support local professionals in improving their technical expertise to identify and prepare technically feasible and bankable projects;
- Exploit bankable opportunities related to climate adaptation and resource efficiency investments in line with the EU IFCA strategic objectives;
- Provide much needed project preparation support and medium-term financing to households, industry, SMEs, agribusiness and commercial services for sustainable resource efficiency and climate adaptation investments.

These objectives support the EU's policy goals in this area, and the EU grant will be used to address major barriers preventing investments in climate adaptation, climate mitigation and advanced energy and resource efficiency techniques.

# Tapping the development potential of the private sector

The private sector is a major driver of sustainable and socially-inclusive economic growth and, for this reason, the engagement of the private sector in the development process is crucial if development is to be economically sustainable and benefit the widest possible number of people, particularly the most disadvantaged sections of society.

In developing countries, private sector companies face more formidable obstacles than those faced by their counterparts in developed markets. Some of the main barriers to private sector development include limited access to finance, a non-conducive business environment and a lack of the quality assessment and conformity compliance infrastructure needed for integration into global value chains.

The IFCA, AIF and IFP aim at fostering investments that will have a positive impact on socio-economic development in their respective regions, with a particular focus on infrastructure in transport, communication and energy interconnections and the promotion of renewable energies. They also address threats to the environment and support efforts in partner countries to mitigate and adapt to the impacts of climate change, while promoting smart, sustainable and inclusive growth through private sector engagement and support to small and medium-sized enterprises.

There is a private sector engagement component in all of the projects approved by the AIF Board in 2015. The Programme of Support for Mongolian Economic Diversification through SME Access to Finance proposes to support private sector development in Mongolia through increased SME access to finance. Moreover, the Eco fishing ports development pilot project in Indonesia contains an investment grant component of EUR 1.2 million targeted at the private sector and aimed at incentivising private companies to comply with new sanitary and environmental standards. Specific attention will also be paid to private sector involvement of the eco certification process for this project. The Mandalay Urban Services Improvement Project (MUSIP) and the technical assistance facility for connectivity and urban development in ASEAN both seek to involve the private sector in infrastructure development through public-private partnerships (PPPs), and the Vientiane Sustainable Urban Transport Project is raising EUR 5 million of its financing from private companies.



In recognition of this, the European Commission provides substantial support aimed at creating an enabling environment for private sector engagement, including regulatory reforms and business development services, with a special focus on strengthening micro, small and medium-sized enterprises, which play a particularly vital role in job creation. Blending is a key instrument through which the European Commission harnesses the potential of the private sector as a financing partner.

For IFCA project too, the private sector is a major focus. The DAMU Green Loan for SMEs and MidCaps project aims to promote local private sector “clean” development through SMEs, while at the same time creating jobs and generating local incomes. In Kyrgyzstan, the KyrSEFF II project will extend loans in the amount of €33.3 million (USD\$45 million) to private finance initiatives (PFIs) for on-lending to private sector borrowers, including SMEs and households, to fund sustainable resource-efficient

investments. Also in Kyrgyzstan, the Value Chain Agro Finance project will address one of the key obstacles to private sector development – access to finance – for SMEs as well as for micro-enterprises and MidCaps. The lending programme envisaged by the project will provide important added value by supplying long-term finance for investment in replacing field machinery and upgrading processing and distribution equipment in the key agri-food sector. The project also includes capacity building among intermediary commercial banks as well a component aimed at increasing the financial and technical capacities of final beneficiaries in the private sector. Market study and project feasibility research exercises conducted for this project revealed that local financial institutions and private sector agri-food representatives were extremely interested in participating.

The IFP grant provided for the Technical Economic Feasibility Study for Lower Ba Hydropower Development project in Fiji, approved by the IFP board in 2014, will be used to ensure the development and implementation of investment proposals aimed to incentivise private sector engagement as part of a comprehensive and consultative governance framework. Likewise, the grant provided as part of the Project Preparation and Implementation Programme for Timor-Leste will act as seed capital to leverage higher levels of investment, including from the private sector and commercial banks.

In its conclusions on “A stronger role of the private sector in development cooperation: An action oriented perspective,” issued at the end of 2014, the European Council highlighted the need to leverage more private finance to implement capital-intensive development projects. The Council noted in particular the importance of blending as a tool to boost economic growth, innovation and job creation. As flexible mechanisms capable of leveraging funding to finance sustainable development, the IFCA, AIF and IFP investment facilities will continue to be one of the key tools through which the EU will engage the private sector in the development process, thereby guaranteeing that development assistance is truly impactful, sustainable and socially inclusive.



# CLOSING REMARKS

Marjeta Jager



Last year was a significant year in terms of global action on sustainable development, with the 3<sup>rd</sup> Financing for Development Conference taking place in Addis Ababa in July, followed by the United Nations Sustainable Development Summit in New York in September, and the COP21 in Paris in December.

The resolution adopted at the New York Sustainable Development Summit called for bold and transformative steps to shift the world to a sustainable and resilient path, with the involvement of all stakeholders acting in collaborative partnership. It is this spirit of collaborative partnership that lies at the heart of the Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF) and the Investment Facility for the Pacific (IFP).

The actions funded under these investment facilities will make a significant contribution to meeting many of the 17 Sustainable Development Goals (SDGs) and 169 associated targets announced at the New York summit. Projects funded under the AIF in 2015 focused on green solutions for urban transport, sustainable and affordable housing and actions to combat climate change. Projects approved for IFCA financing in 2015 will improve access to water and sustainable energy in the region. During 2015 the first projects were approved under the IFP focusing on energy and private sector development. In this way, the IFCA, AIF and IFP are contributing to achieving the SDGs' objectives of ensuring access to affordable, reliable, sustainable and modern energy for all, ensuring the availability and sustainable management of water and sanitation for all, and making cities and human settlements inclusive, safe, resilient and sustainable.

Under the AIF, five projects were approved in 2015 with a combined investment volume of EUR 582 million. In total, EUR 27 million was allocated for blending as part of these projects. Five AIF contracts were signed, with a blending value of EUR 25.4 million. The IFCA had six projects approved in 2015, involving a total investment of EUR 366 million. EUR 37.5 million was allocated for blending under these projects. One IFCA contract was signed for a total blending value of EUR 5.2 million. Finally, two contracts were signed under the IFP, with a blending value of EUR 9.7 million.

The sustainability focus of projects financed under these blending mechanisms responds to the need for urgent action to combat climate change and its impacts. Furthermore, by making development assistance more collaborative and engaging a wider range of stakeholders, the investment facilities are contributing to the revitalisation of the Global Partnership for Sustainable Development and strengthening the implementation of international development assistance projects.

The post-2015 development agenda is an opportunity for the European Union to reinvigorate its role as a champion of sustainable development. Given the efficacy of the blending mechanism as an instrument to deliver the level of financing required to implement large-scale infrastructure projects, the IFCA, AIF and IFP will continue to play a major role in the EU's development work in the Central Asian, Asian and Pacific regions. By offering an innovative solution for the implementation of development projects, these investment facilities will ensure that EU development assistance is as effective as possible and forms part of an overarching development strategy that addresses specific long-term objectives, including promoting equitable and inclusive economic growth, creating jobs and fighting climate change.

Marjeta Jager

Deputy Director-General, International Cooperation and Development

A handwritten signature in black ink, appearing to read 'Marjeta Jager', written in a cursive style.

## IFCA / AIF / IFP

# ORGANISATIONAL STRUCTURE

### EU Blending Frameworks

A new governance structure for blending instruments was agreed with the EU Member States in 2014. Within this new structure, the EU implements blending operations under the DCI, EDF, ENI (European Neighbourhood Instrument) and IPA (Instrument for Pre-Accession Assistance) Blending Frameworks, corresponding to the financing instruments supporting the Union's external policies. The Blending Frameworks, through their corresponding facilities, cover the countries and thematic operations concerned.

### Project assessment and Board opinion

A blending operation needs to be developed by a Finance Institution, as it involves the provision of a loan or other type of financing from one or more Finance Institutions.

The Lead Finance Institution is in charge of submitting a project proposal using a project application form for discussion and assessment at a Technical Assessment Meeting (TAM). These meetings are chaired by the Commission with the participation of the European External Action Service (EEAS) and Finance Institutions.

Based on the results of the discussions at the Technical Assessment Meeting, proposals may either be considered mature enough for submission to the Board, or may be returned for re-submission at a subsequent meeting or may be rejected.















The Board is responsible for formulating opinions on individual blending operations. It is chaired by the Commission with the participation of the EEAS and the EU Member States, as voting members, and the Finance Institutions as observers. Based on Board decisions for the selected proposals, a complementary decision is adopted by the Commission.

### Secretariat

The Secretariat of the EU Blending Frameworks is run by the Commission. The Secretariat supports the management of the EU Blending Frameworks by providing support, including in the assessment process and formulation of opinions by the Board, coordination of consultations and organisation of technical assessment and Board meetings, reporting, dissemination of information, sharing of best practices and training. The Directorate-General for International Cooperation and Development (DG DEVCO) provides support to the DCI and EDF Blending Frameworks.

# IFCA / ANNEX

## LIST OF APPROVED PROJECTS (ALL FIGURES ARE IN € MILLION)

Country	Year of approval	Title of the project	Rio Marker 	Consortium of Finance Institutions	Sector	Total project cost (€ million)
Kazakhstan	2010	Kazakhstan Sustainable Energy Financing Facility		EBRD,EIB	energy	30
Tajikistan	2011	Khujand Energy Loss Reduction project (Sugd)		EBRD,EIB	energy	21
Tajikistan	2011	Central Tajik Water Rehabilitation		EBRD	environment	15
Regional	2011	Central Asia Technical Assistance Framework		EBRD	environment	8
Regional	2012	Structured microfinance fund for Central Asia (MIFA Debt Fund)		KFW,IFC	private	27
Kyrgyz Rep.	2012	Kyrgyzstan sustainable energy efficiency financing facility (KyrSEFF)		EBRD	energy	21
Regional	2012	SME Finance Facility for Central Asia		EBRD	private	86
Regional	2013	Framework for Strengthening Municipal Infrastructure in Central Asia (Phase I)		EBRD,WB,GEF,SECO	environment	39
Kazakhstan	2013	Kazagro Climate Loan for SMEs, Midcaps and MSMEs		EIB	private	152
Kazakhstan	2013	Framework for Technical Assistance in Kazakhstan		EBRD	environment	3
Kyrgyz Rep.	2013	Bishkek Solid Waste Project Phase I		EBRD	environment	24 *
Uzbekistan	2014	Improvement of solid waste management system in the City of Samarkand		AFD	environment	29
Turkmenistan	2014	Implementation of Enterprise Growth Programme (EGP) and Business Advisory Services (BAS) in Turkmenistan		EBRD	private	3
Kyrgyz Rep.	2014	Bishkek Solid Waste Project Phase 2		EBRD	environment	0 *
Turkmenistan	2014	Turkmenistan Project Identification Study		EBRD	multisector	1
Kyrgyz Rep.	2014	Tokmok Water Project		EBRD	water	6
Kyrgyz Rep.	2015	Value Chain Agro-Finance Phase I		KFW,EIB	private	54
Kyrgyz Rep.	2015	Osh and Jalalabad Solid Waste Projects		EBRD,EIB	environment	21
Kyrgyz Rep.	2015	Kyrgyzstan sustainable energy efficiency financing facility - Extension (KyrSEFF II)		EBRD	energy	43
Kyrgyz Rep.	2015	Oshelectro Rehabilitation Project		EBRD	energy	6
Kyrgyz Rep.	2015	Support to the Kyrgyz Republic for Water and Wastewater Investments		EBRD	water	41
Kazakhstan	2015	DAMU Green Loan for SMES and MIDCAPS ("Project")		EIB	multisector	202
<b>TOTAL</b>						<b>830</b>



IFCA contribution (€ million)	Amount to be reported as Climate Action support (€ million)	Type of IFCA support	Status	Tendering of EU financed project components started?	Construction of the project started?	EU financed TA/ Guarantee/Risk Capital started?
5.0	5	TA/Grant	Cancelled	N/A	N/A	N/A
7.0	0	TA/Grant	Implementing	Awarded	Under construction	On-going
7.0	0	TA/Grant	Implementing	Awarded	Under construction	On-going
8.0	3.2	TA	Implementing	N/A	N/A	On-going
3.0	0	RC/TA	Implementing	N/A	N/A	On-going
6.8	6.8	TA/Grant	Implementing	Awarded	N/A	On-going
11.0	0	Guarantee/TA	Implementing	N/A	On-going	on going
7.3	2.9	Grant	Implementing	Procurement started	No	Completed
1.8	1.8	TA	Approved	Procurement to be launched	N/A	N/A
3.0	1.2	TA	Implementing	N/A	N/A	On-going
3.6	1.4	grant	Implementing	Procurement started	No	N/A
8.0	3.2	TA	Implementing	Awarded	Studies ongoing	No
2.5	0	TA	Implementing	N/A	N/A	N/A
4.4	1.8	Grant	Implementing	Procurement started	No	N/A
1.0	0	TA	Implementing	N/A	N/A	On-going
2.1	0.8	Grant	Implementing	Procurement to be launched	No	N/A
5.0	0	Grant	Signed	N/A	N/A	N/A
9.0	9	Grant	Approved	Procurement to be launched	No	N/A
9.2	9.24	TA/Grant	Approved	Procurement to be launched	No	N/A
1.1	0.42	TA/Grant	Approved	Procurement to be launched	No	N/A
11.2	0	Grant	Approved	Procurement to be launched	No	N/A
2.0	2	TA	Approved	Procurement to be launched	N/A	N/A
<b>119.0</b>	<b>48.76</b>					

\* Already accounted in project Bishkek Phase 1.

# AIF / ANNEX

## LIST OF APPROVED PROJECTS (ALL FIGURES ARE IN € MILLION)

Country	Year of approval	Title of the project	Rio Marker 	Consortium of Finance Institutions	Sector	Total project cost (€ million)
Regional	2012	Structured Microfinance Fund for Asia (MIFA Debt Fund)		KFW,IFC	Private	54
Indonesia	2012	Support to carbon-linked incentive mechanisms to support the implementation of Indonesian energy efficiency and renewable energy policy		KFW	Environment	27
Pakistan	2012	Capacity-Building and Development of the Hydro-power Sector in Pakistan		AFD	Energy	105
Bangladesh	2013	Bangladesh Power Energy Efficiency		EIB, ADB	Energy	335
Bangladesh	2013	Dhaka Urban Transport (DTCA Capacity Building)		AFD,ADB,GEF	Environment	199
Nepal	2013	Efficient transmission of electricity from renewable sources		KFW,EIB	Energy	60
Cambodia	2013	Improvement of access to electricity and water in small towns and rural areas		AFD	Energy	90
Regional	2013	MIFA Debt Fund, Biogas/Renewable Energy1 Component		KFW	Energy	18
Philippines	2014	Disaster Risk management and Institutional Strengthening of Local Government Units		AFD,ADB	Environment	296
Vietnam	2014	Supporting sustainable urban infrastructure development in Ho Chi Minh City area		AFD,KFW	Environment	51
Pakistan	2014	WARSAK Hydropower Plant		AFD,EIB,KFW	Energy	146
Bangladesh	2014	Dhaka Environmentally Sustainable Water Supply Project II (Saidabad 3)		AFD,EIB	Water	398
Sri-Lanka	2014	Sanitation and Hygiene Initiative for Towns (SHIFT) in South West Sri Lanka		AFD	Sanitation	266
PM	PM	Supporting sustainable urban infrastructure development in Ho Chi Minh City area	PM	PM	PM	PM
Laos	2015	Vientiane Sustainable Urban Transport		EIB,ADB, OFID,GEF	Urban dev.	70
Regional	2015	Technical assistance facility for connectivity and urban dev. in ASEAN		AFD	Multi	1
Myanmar	2015	Mandalay Urban Services Improvement Project (MUSIP)		AFD,ADB	Water/sanitation	102
Mongolia	2015	Support for Mongolian Economic Diversification through SME Access to Finance		EBRD	Private	302
Indonesia	2015	Eco fishing ports development pilot project		AFD	Multisector	107
<b>TOTAL</b>						<b>2627</b>


AIF contribution (€ million)	Amount to be reported as Climate Action support (€ million)	Type of AIF support	Status	Tendering of EU financed project components started?	Construction of the project started?	EU financed TA/ Guarantee/Risk Capital started?
6.0	0	RC/TA	Implementing	N/A	N/A	On-going
7.0	7	TA/Grant	Implementing	N/A	N/A	On-going
2.5	2.5	TA	Signed	Procurement to be launched	Studies ongoing	No
5.7	5.7	TA	Signed	Procurement to be launched	N/A	No
2.9	1.14	TA	Signed	Procurement to be launched	No	No
2.3	2.25	Grant	Signed	Procurement to be launched	No	N/A
6.0	6	TA/Grant	Implementing	Awarded	Under construction	On-going
4.0	4	RC/TA	Approved	N/A	N/A	No
4.8	4.8	TA	Implementing	Procurement to be launched	N/A	N/A
6.0	2.4	TA/Grant	Signed	N/A	No	No
4.5	4.5	TA/Grant	Signed	Procurement started	Studies ongoing	No
5.0	2	TA/Grant	Approved	Procurement to be launched	No	No
5.7	2.28	TA	Approved	Procurement to be launched	No	N/A
PM	PM	PM	PM	PM	PM	PM
5.0	5	TA	Implementing	Awarded	N/A	On-going
1.1	0	TA	Signed	N/A	N/A	Completed
8.0	3.2	TA/Grant	Approved	N/A	N/A	N/A
9.3	0	TA/Risk sharing	Implementing	N/A	N/A	Design on-going
3.7	1.48	TA/Grant	Approved	No	No	No
<b>89.4</b>	<b>54.25</b>					

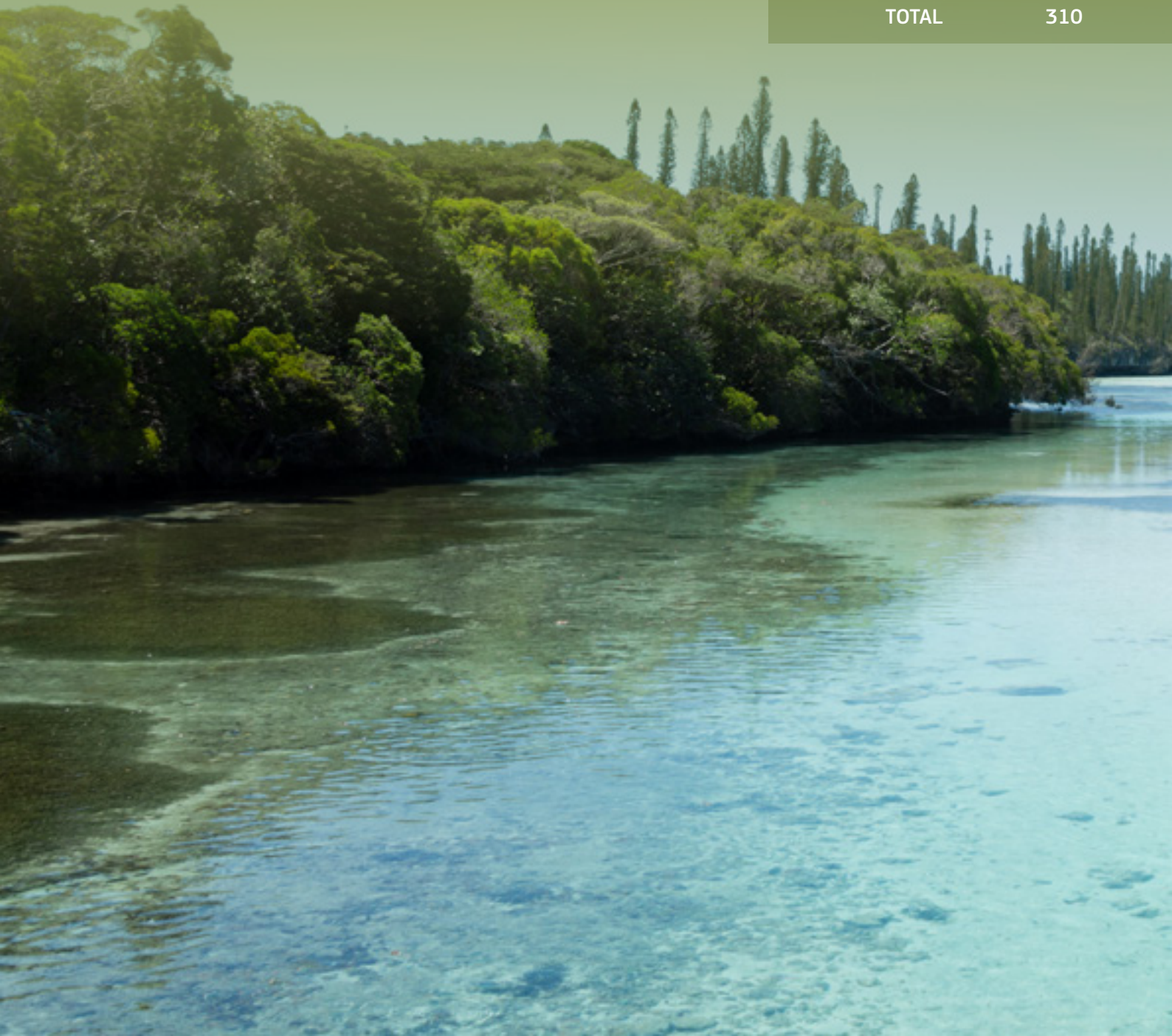
\* Project approved in last Board of 2014 for 6 M euros, but contracted by the end of 2014 for 5 M euros. Remaining 1 M euros has been contracted in 2015.

# IFP /

# ANNEX

LIST OF APPROVED PROJECTS (ALL FIGURES ARE IN € MILLION)

Country	Year of approval	Title of the project	Rio Marker 	Consortium of Finance Institutions	Sector	Total project cost (€ million)
Fiji	2014	Technical Economic Feasibility Study for Lower Ba Hydropower Development		EIB, ADB	Energy	305
Timor-Leste	2014	Project preparation & Implementation Programme for Timor-Leste (PPI Programme)		EIB, ADB, WB	Transport, Water, Waste Water, Urban development	5
<b>TOTAL</b>						<b>310</b>



IFP contribution (€ million)	Amount to be reported as Climate Action support (€ million)	Type of IFP support	Status	Tendering of EU financed project components started?	Construction of the project started?	EU financed TA/ Guarantee/Risk Capital started?
4.5	0	TA	Approved	N/A	Studies ongoing	No
4.8	0	TA	Approved	No	No	No
9.3	0					



# ACRONYMS

**ADB:** Asian Development Bank

**AFD:** Agence Française de Développement

**AIF:** Asia Investment Facility

**ASEAN:** Association of Southeast Asian Nations

**CCW:** Climate Change Window

**COP21:** 21<sup>st</sup> Session of the Conference of Parties to the United Nations Framework Convention on Climate Change

**DCI:** Development Cooperation Instrument

**EBRD:** European Bank for Reconstruction and Development

**EDF:** European Development Fund

**EFI:** Eligible Finance Institution

**EIB:** European Investment Bank

**GDP:** Gross Domestic Product

**GEF:** Global Environment Fund

**IFCA:** Investment Facility for Central Asia

**IFP:** Investment Facility for the Pacific

**KfW:** Kreditanstalt für Wiederaufbau

**OFID:** OPEC Fund for International Development

**OPEC:** Organisation of the Petroleum Exporting Countries

**PRIF:** Pacific Region Infrastructure Facility

**SECO:** Swiss State Secretariat for Economic Affairs

**SEFF:** Sustainable Energy Financing Facility

**SME:** Small and Medium-sized Enterprise

**SMRE:** Small and Medium-sized Rural Enterprise

**SSF:** EBRD Shareholder Special Fund

**MPAC:** Master Plan for ASEAN Connectivity

**UCCRTF:** Urban Climate Change Resilient Trust Fund

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