« FICHE CONTRADICTOIRE »

Evaluation of Blending (2007-2014)

Recommendations	Response of EU services	Follow-up (one year later, in 2019)
Recommendation #1 Continue to focus strongly on the additionality of the blending grant. Rationale: The early projects often failed to make the additionality of blending grants explicit. Yet this should be a key focus of any blending application – to truly focus on "what the project will have with the grant that it otherwise would not have". This recommendation can be achieved through action such as: Emphasise the need for the grants to solve a problem (such as a market failure or a failure to provide public goods) that cannot be as well solved with just a loan. This has already been recognised in the latest application form, where topic 29 requires the IFI to explicitly address additionality. Continue vigilant and close scrutiny in the technical assessment meetings at facility level. Consider using resources for post construction follow up on sustainability issues. Expand the use of risk sharing approaches; in particular, scrutinise the use of investment grants so that they are only used where highly justified and, consider innovative measures to bring technical assistance under loan rather than grant finance, including the use of revolving funds for grant financed project preparation work.	**Accepted** As stated by the report, the emphasis on the need for the grants has already been reflected in the latest Application Form (01.01.2016. The Commission will keep its close scrutiny of the additionality aspects in the internal screening of the proposals as well as in the TAMs. Post-construction measures to be considered whenever relevant in order to ensure smooth transition to the handover of works. The Commission will continue to ensure that maintenance operations are properly taken on board in the proposal. The possibility of bringing TA under the loan as well as the potential use of revolving funds for project preparation work could be considered on a case-by-case basis. Whenever relevant and considering the nature of the project, the Commission may ask the Lead FI to explore these modalities in the design phase, e.g., the re-investment of the cost of preparatory work when the project has proved to be successful and hence economic returns are very likely. A discussion with blending partners on use of revolving funds or similar possible innovative approaches for grant financed project preparation is envisaged.	

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Implementation responsibility: IFIs, EU delegations and blending facilities' technical assessment meetings		
Recommendation #2 Expand the number and specialisation of IFI partners and ensure that training is provided in line with the expansion Rationale: Expanding the number of financial institution partners should increase the range and volume of blending applications presented to the facilities. This recommendation can be achieved through action such as: Encourage regional non-European development banks to participate actively and where relevant lead on blending (AfDB for AfIF, IaDB and CDB for the CIF). Where relevant brief, build awareness and support other IFIs that have a potential for future blending operations such as AfDB). Explore new partnerships with European development financial institutions and other European institutions. Explore, in the longer term, the potential of partnerships with civil society based organisation that have a robust track record of managing loan funds (this could if well managed bring a new dynamic to implementation of recommendation #5 on enhancing the poverty impact).	**Accepted** The Commission is currently discussing ways of speeding up the assessment exercise (the so-called "pillars assessment") for increasing the number of Financial Institutions that can operate in the EFSD (European Fund for Sustainable Development) and EFSD Guarantee as eligible counterparts. Blending facilities for Africa and EU Neighbourhood regions are now integrated in the EFSD under the EIP (External Investment Plan) and the Commission is taken action to expand the number of FIs involved. A recent example occurred during the technical meeting of the EU Platform for Blending in External Cooperation (EUBEC) of 12/12/2017 in which the EIP Secretariat made a presentation of the pillars assessment process and encouraged FIs to go through the assessment exercise expressing its availability and support to interested institutions in being eligible for blending and EFSD. The Commission is following-up on possible participation of interested FIs either as Lead or as co-financiers of blending proposals. In this context, the Commission often takes advantage of work missions to Member States and countries to liaise with FIs with local presence that can operate as blending partners in a given geographical area. Meetings with these FIs are used to raise awareness of blending opportunities, explain blending procedures and establish permanent contacts with FIs counterparts for existing and future collaboration. In this context the AfDB has become the most active partner under the	

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Implementation responsibility: IFIs, European Development Financial Institutions, DEVCO, NEAR	Africa Investment Facility/Platform. Further awareness campaigns and targeted support activities (including training where relevant) for FIs involved or likely to be involved in EU blending and EIP are ongoing and to be continued. In addition to regular meetings and consultations with the FIs collectively in the context of EUBEC, ad-hoc consultations (e.g. EIP) and other activities, DEVCO & NEAR management and technical staff convene meetings with individual IFIs to review current and future partnerships and project implementation. As regards, potential of partnerships with civil society based organisations, Initial contacts have been made with a Cordaid, an NL-based NGO which provides micro-finance services such as credit, savings, transfers and insurances. The Commission is also promoting multi-stakeholders alliances between, *i.a.*, Finance Institutions, Civil Society Organisation and the private sector to achieve a greater impact at country level. This approach contributes also to address recommendation #6 as regards better targeting of low and lower-medium income countries.	
Recommendation #3 Sharpen the alignment of the blending project with national policies. Rationale: Although blending projects were broadly aligned with the facilities' objectives, the explicit link between the project and national objectives and priorities was often not clear enough.	**Accepted** Alignment with national and regional policies is a main element of the early pipeline discussions which result on feedback and recommendations for future project development. This is a continuous	

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This recommendation can be achieved through action such as: □ Increase the awareness of IFI staff and EU delegation staff. □ Pay special attention to topic 22 in the application form which requires explanation of policy alignment, ensuring that this relates not only to the facilities' policy objectives but also to relevant national policies. □ Ensure that the technical assessment meetings scrutinise this aspect in detail. Implementation responsibility: IFIs, EU delegations, technical assessment meetings (facilities)	action. One of the key requirements of a proposal is to be complementary to corresponding regional, national and local strategy and measures and it needs to be explained as part of the description of the project in the Application Form, included its coherence with the Public Investment Programme whenever relevant. Alignment with relevant national and regional policies is scrutinized during the inter-service consultation preceding the TAM, in particular by the concerned DEVCO and NEAR services and Delegations that shall verify the information provided by the Lead FI and challenge it and/or complement it if need be. The examination of these aspects is carried on during TAM meetings. Therefore, current requirements during the screening process already address this recommendation that will be also be followed in the EIP implementation.	
Recommendation #4 Build on the advances of the post 2014 blending guidance framework and continue with improvements and innovation in project design in order to ensure that blending projects optimise the potential to achieve the development cooperation goals set out by the EU. Rationale: The development potential of blending has not been fully mobilised in the past. The findings of this evaluation support the application of the approaches outlined in the new guidance framework. It is noted however, that whilst the guidelines are well-	**Accepted** - Concerning the incorporation of development and transition aims, specific development or transition objectives as appropriate per country and sector are already part of the scrutiny of policy alignment. Specific indicators were elaborated and applicable in the revised Application Form. Regarding transition in particular, the following policy markers have	

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conceived and respond to most of the challenges faced by blending projects, it is also important not to over-complicate blending operations and rely on a lean approach combined with skill building within the IFIs. This recommendation can be achieved through action such as: Incorporate the development and transition aims more explicitly in the objectives, intervention logic and results matrix, policy reform and transition goals; Undertake capacity assessments and incorporate capacity development outcomes in the results matrix; Subject the assumptions, the justification of the grant and the assessment of risks to sharper scrutiny	been defined and included in the new version of the application form: gender equality, protection of environment and participatory development/good governance (PD/GG). All these are key indicators on transition, which states that a well-functioning market economy should be competitive, inclusive, well-governed, environmentally friendly, resilient and integrated. The evaluation considers as a good practice the incorporation of a transition or policy related objective into the core objective, rationale and design of the project, such as was the case for the later EBRD-led NIF projects. This could be desirable only if these policy or transition objectives provide further evidence of the additionality to be achieved. If this is the case, the Commission could request its incorporation in the design of the project for reporting on them when the implementation starts. - Concerning capacity measures, it can be addressed through Technical Assistance (TA) aiming at building and strengthening capacity-related activities. The screening process of the proposal ensures that these activities aim to secure longer term institutional and operational capacity development. Enhancing the link between blending and TA, policy dialogue and capacity development is one of the crucial innovations of the proposed EIP/EFSD through the three pillars approach. - Concerning sharper scrutiny of the cited elements, the Commission believes that the scrutiny currently carried out provides the necessary assurance that assumptions are realistic, justifications are acceptable and risks described and its likelihood properly rated. The Commission endeavours to find the right balance between transaction costs and the	

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Implementation responsibility: National partners, IFIs, EU Delegations, EU blending facilities	thoroughness of the assessment process. As recognised by the evaluation, it is also important not to over-complicate blending operations and rely on skills and experience of IFIs.	
Recommendation #5 Boost the contribution to PSD by expanding the use of risk sharing instruments to financial intermediaries selected for their strategy and policies with respect to risk taking. For instance: - In order to boost private resources available for PSD; special risk cushions can be used to crowd-in private funding but further effort will be needed to make that more efficient (i.e. a lower ratio of C-shares to private investments coming from a wider range of risk tolerant private investors) - In order to broaden and deepen the financial sector; credit guarantees are effective but future innovation should focus on creating sustainability for when the guarantees are reduced - In order to improve access to finance for the unbanked; financial intermediaries should be selected based on their strategy, policies and risk management approach for first-time borrowers, rather than only because of their status as a bank or a micro-finance institution.	Accepted - It is accepted that the C-share ratio should be lower as much as possible whenever there are private investors that can accept a higher risk tolerance which is not always the case and will very much depend on the nature of the project and the development objectives to be achieved. The creation of the EFSD new Guarantee directly responds to this recommendation and the use of risk cushion mechanisms such as guarantees and C-shares has increased in the last years in the blending frameworks. The Commission's ambition is to go beyond existing instruments and products by supporting innovative financing models developed by financial institutions and an enhanced engagement of the private sector. The Commission encourages the use of innovative risk-sharing instruments such as guarantees of credit lines in the frame of existing blending facilities as well as in the EIP with the creation of the EFSD Guarantee with a total value of up to € 1.5 billion, as part of the first Pillar of the EIP. The recommendation of ensuring sustainability when the guarantee is reduced will be followed and will also be taken into	

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Implementation responsibility: IFIs	account for the new guarantee. The Commission agrees that access to the unbanked should be facilitated. It is worth noting that Micro-finance institutions might be best placed to reach unbanked customers but, as the evaluation recognises, this does not imply that banks with specialised risk management capabilities adapted to SMEs could not achieve the same results. It depends more on the strategy and policy of the institution, and its risk management approach, than on its status (micro-finance lender or bank).	
Recommendation #6 Achieve greater development impact through blending projects by placing greater focus on job creation and poverty alleviation. Rationale: Blending projects generally aimed at wider macro-economic development rather that grass root targeting of the poorest of the poor for which other instruments are usually better suited. Although blending projects lead to job creation this was not monitored (it is now through the new results framework) and job creation effects are not optimised. It is important to recognise that although blending cannot address all issues and has a comparative advantage in serving large scale economic development aims, there are still many opportunities to also optimise impact on poverty alleviation and the creation of decent work. This recommendation can be achieved through action such as: - Scale up the blending resources available for projects serving poor populations and addressing root causes of poverty in low and lower medium income countries including employment related issues –	Accepted The primary objective of EU Development assistance is the reduction and, in the long term, the eradication of poverty under a multidimensional approach. Blending can make an impact on job creation and poverty alleviation either directly or indirectly through measures that ultimately benefit the most vulnerable population by addressing some of the root causes of poverty. DEVCO-managed blending projects aim to attain sustainable growth and reducing poverty. NEAR-managed blending projects are to support an area of prosperity and good neighbourliness, founded on the EUs values, thus enhancing democratic governance, security and democratic, sustainable and inclusive development. A cross-sector indicator of the results measurement framework of the revised Application Form is the number of beneficiaries living below the poverty line. Moreover, one of the main requirements to be answered in the checklist of the Form is that the project demonstrates clear expected direct or indirect poverty	

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adjusting the grant levels where justified; Analyse and understand the poverty and employment profile in the project-affected area consider explicitly the needs of the poor and measures that protect the poor against potential adverse effects; Where projects have an infrastructure or macro-economic development focus and in the spirit of the new European External Investment Plan, examine and if relevant support and ensure that advantage is taken of the downstream employment prospects e.g. an improving electricity supply that can expand SME activity. Select partners such as micro finance institutions, where relevant to do so, that will be effective in reaching the poor.	alleviation impact. Therefore, pro-poor aspects are closely scrutinized during the assessment process. The Commission will continue its effort to select and prioritize projects with the strongest pro-poor targets. A recent example is the Regulation of 26/09/2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund which sets out that the EFSD shall contribute to the achievement of the Sustainable Development goals of the 2030 Agenda, in particular poverty eradication. Targeting of low and lower-medium income countries is illustrated, *e.g.*, by the volume of financing for these countries in the frame of the African Investment Facility (AfIF): as of end 2017, all the AfIF projects except one will benefit low or lower-medium income economies with a clear predominance of low income countries and a total EU contribution of *circa* EUR 730 million. As regards employment profile, one of the priorities of the new European Consensus on development is to increase the focus on supporting youth and improving their future prospects. Creating decent jobs, particularly for women and youth is essential for inclusive and sustainable growth. This includes increasing quality employment and participation in local economies. More emphasis will be put into measures contributing, directly or indirectly, to employment creation and employment maintenance for the targeted population. Cross-sector indicators of the results measurement framework (revised Application Form) are defined for direct employment during	

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	construction, operations and maintenance phases. Furthermore, FIs are particularly encouraged to introduce project specific indicators relating to indirect employment benefits whenever feasible. The Commission will step up efforts and guidance to our blending partners for further integrating prospects for economic operators and its spill over effects in the proposals. In this respect, the EIP will pay close attention to economic knock-on effects of projects, in line with its focus on sustainable development and addressing root causes of migration. The Lead FIs have all a development goal that can only be achieved by selecting partners whose records and micro-finance activities would benefit the less privileged either directly targeting this population or the areas in which they live or indirectly by creating growth that would increase the social-economic development of comparative low-income areas of the country or region. An example of the involvement of micro-finance institutions is SANAD covered by NIF, which is a dedicated fund supported by the EU and the German Government that provides debt and equity financing to partner financial institutions in the Middle East and North Africa region to support growth and employment creation in the region's micro, small and medium (MSME) enterprise sector. The Fund has committed investments of USD 257m and is working with 23 micro-finance institutions in 6 countries. By the end of 2017, SANAD expects to reach some 130 000 MSMEs, enabling them to create and sustain thousands of jobs, many of them for women and young people.	

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Implementation responsibility: National partners, IFIs, EU Delegations, EU blending facilities	Another example is the Structured Microfinance Fund for Central Asia (MIFA). The MIFA Debt Fund, co-funded by KfW (the German Development Bank) and the International Finance Corporation (IFC) which provides local currency credits to Micro-Finance Institutions. It aims at offering market-based debt financing to financial entities serving micro business and support capacity building among these entities as well as helping the establishment of microfinance as an asset type with mainstream investors and leverage private capital.	
Recommendation #7 Undertake assessment of the partner's procurement and contracting systems to better align the strategy for PMUs and use of IFI procurement and other procedures so that they strengthen national systems. Rationale: Much of the transaction costs and frustration experienced by implementing partners on blending projects arose from IFI procurement and other management systems. Whilst it is recognised that the IFIs assess partner capacity, rely on partners to implement the procurement and provide technical assistance where there is weakness; there is still further opportunities to strengthen the capacity of partners and partner systems rather than bring in new staff and substitute with new systems. This recommendation can be achieved through action such as: Assess the partner institutional capacity and fiduciary performance; Assess safeguards that could be taken such as strengthening partner systems before replacing them with external IFI systems	**Accepted** The assessment of the partner capacity and performance is part of the due diligence of the Lead FI. The Commission relies on the work undertaken by the Lead FI to ascertain that these aspects are properly assessed during the design phase and addressed during implementation. To be noted that the procedures of the Lead FIs are assessed by the Commission in the frame of the pillars exercise to check the consistency with the EU procedures and high quality standards. The Commission will remain vigilant while discussing on and assess proposals put forward by the Lead FI on aspects of partner institutional capacity and financial performance. Concerning the strengthening of partner systems, Lead FIs endeavour to use the existing systems of the local counterparts as much as possible if they are aligned with the agreed standards. Strengthening partner systems is a common objective also addressed via budget support and other EU programmes aimed at improving the business environment in	

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(where relevant link to, support and take advantage of budget support to public financial management and administrative reforms that are being supported by the EU and others); Develop an institutional and capacity development strategy that ensures that even if external IFI systems are used, residual capacity for project management will remain where such capacity is needed in the future. Implementation responsibility: National partners, IFIs	partner countries, also under EIP. The updated Commission budget support Guidelines of September 2017 (p.52-53) provide guidance on how to ensure synergies between budget support and blending and acknowledge that investment including through blending requires a number of enabling factors. Strengthening the macroeconomic and budgetary framework, the investment and business environment, sector policies and institutions and public finance management through budget support can address critical issues which directly have an impact on potential results to be achieved by blending operations. In the context of the implementation of the EIP, these synergies shall be reinforced. The EIP aims to ensure coherence between blending operations and other aid modalities such as budget support under its proposed third pillar which promotes a conducive investment climate in partner countries.	
Recommendation #8 Take a pro-active stance on visibility where such visibility is particularly important or likely to lead to political capital or other gains. Rationale: Visibility rules are generally followed by the IFIs but the in-country perception of the projects rarely reflects the involvement of the EU. If the range of IFIs is expanded beyond the European IFIs, the low visibility effect will become even stronger. This recommendation can be achieved through action such as: Encourage in the project design a continuous outward accountability to the beneficiaries and political level on the evolution	**Accepted** The report identifies the EU Delegations as responsible for implementing this recommendation. However, the Commission is of the view that EU visibility issues should be addressed in a collaborative manner and as a result of a joint understanding with the Lead FI (and co-financiers in some instances). The basis for this collaboration is the Communication and visibility plan attached to the Application Form which sets the conditions for the involvement of EU Delegations at all key events with visibility potential. The EU Delegations and the IFIs abide by the visibility rules for EU financing as per relevant provisions in the respective project agreements	

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and performance of the project. This means that the project should advertise itself locally and explain to politicians and to the beneficiaries and others what it is doing, why it is doing it, and what it has achieved. It should invite for example local schools and communities to the site and get them involved. Prioritise active engagement of EU delegations in seminars, conferences, press releases, for projects where greater visibility and recognition is likely to bring political capital or other benefits; Carry out visibility surveys and undertake corrective action depending on the perception found. Implementation responsibility: EU Delegations	and contracts. Both parties will take advantage of any possible occasion to raise lasting awareness of the EU contribution to the project. Renewed efforts should continue to ensure that EU visibility is carried out at its full potential in liaison with our blending partners. In addition, visibility surveys can be envisaged.	