European Commission

Evaluation of Blending

Final Report

Volume II – Evidence documents

December 2016

International Cooperation and Development

Evaluation carried out on behalf of the European Commission

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Contract EVA 2011/Lot 1
Specific Contract N° 2014/352910

This evaluation was commissioned by

the Evaluation Unit of the

Directorate-General for International Cooperation and Development

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Annex B1. Inventory

Annex B1: Inventory

This annex aims at providing an overview of EU funding dedicated to blending. It provides an inventory and typology of EU funding to the seven facilities in the scope of this evaluation during the period 2007-2014. The database constructed serves for further data analysis and where relevant can be used to contribute to the analysis of the evaluation questions

After a quick introduction on the approach followed, this section presents a general overview of EU blending, followed by breakdowns by facility, by year, by sector, by country, by lead financial institution, by leverage and by public debt. Lastly, the implications for the evaluation are described.

1. Approach

The inventory was elaborated on the basis of four sources:

1. *EuropeAid's CRIS database* (Common RELEX Information System). The CRIS database regroups information for all facilities expect for ITF interventions. It served as the primary building block for the inventory. The data extraction was done on 2nd February 2015.
2. *EuropeAid C3 Unit's dataset*, received by email on 26th January 2015. This dataset enabled to crosscheck information from CRIS and to complete it with additional information (e.g. IFIs involved and their contributions). It provides information for all facilities excluding NIF and ITF.
3. *DG NEAR's NIF dataset*. The last version of the dataset was received on 13th March 2015. This dataset added verified information for support to NIF projects.
4. *ITF Secretariat's dataset*. We used a dataset received on 23rd March 2015. It added verified information for support to ITF projects.

The evaluation team cross-checked the information on each blending project with the respective facilities' secretariats.[1]

[1] Except for the ITF for which we rely on ITF Secretariat data. We excluded from our database projects with a 'cancelled' status; 'services and administrative arrangements' (e.g. publication of annual reports, mid-term evaluation); and NIF Trust Fund projects as they are not part of the evaluation scope.

2. General overview

Total EU funding allocated to the investment facilities reached more than 2 billion Euros (2 316.2 M€). The amount effectively contracted (at 31/12/2014) reached **1.7 billion Euros** (1 714.8 M€ or 74%). Disbursements reached more than 700 Million Euros. See table 2. The low disbursement could reflect the long gestation period of larger infrastructure projects. It might also reflect that the Commission is only disbursing funds when needed (as noted in the ECA report, chapter 3).

The ITF and NIF, the first facilities launched are the most advanced with a joint total of 78% of EU funding (contracted). If adding LAIF, it reaches 89%. IFCA, CIF and AIF reached 11% together. The IFP does not have any signed contracts yet, which explains why this facility doesn't appear in most figures hereafter.

Table 1 : General overview of EU contribution to blending, 2007-2014 (M€)[2]

Facility	Creation Year	EU Allocated Amount	EU Contracted Amount	% of the EU allocated amount	EU Disbursed Amount	% of the EU allocated amount	Number of Projects
ITF	2007	647,7	535,8	83%	155,9	24%	70
NIF	2008	1.186,3	807,6	68%	443,9	37%	79
LAIF	2010	210,4	195,0	93%	102,6	49%	24
IFCA	2010	105,6	90,5	86%	40,3	38%	15
AIF	2012	86,0	53,6	62%	15,5	18%	11
CIF	2012	70,2	32,3	46%	14,9	21%	4
IFP	2012	10,0	-	-	-	-	-
Total		2.316,2	1714,8	74%	773,1	33%	203

*Percentages of the Allocated Amount
Source: ADE based on EuropeAid's CRIS database and the Secretariats of the Facilities

A total of **203 projects** have benefited from EU funding. The average amount of EU blending funding was of 8.5 €M.

Only **13 blending contracts have been completed** (at 31/12/2014) [3]- Eight from ITF and five from NIF). These completed contracts include mostly Technical Assistance (54%) but also Investment Grants, Guarantees and Interest Rate Subsidy.

[2] Allocated amounts relate to CRIS data at the decision level. Contracted and disbursed ('Paid') amounts relate to CRIS data at the contract level (terminology to the standard Eurobase terminology)

[3] Completed projects are defined as projects having a 'closed' status in CRIS.

Figure 1 shows the evolution of the EU contribution per facility over time. Financing through the blending facilities is young and rapidly evolving. EU contribution to blending has increased sharply until 2013, with an average annual growth rate of 27.9% to reach a **maximum of 402 M€ in 2013**. In 2014 there was a slight decrease of approximately 5% (to 380 M€). The NIF has been the largest facility almost every year.

Figure 1 : Evolution of EU contribution per facility and over time

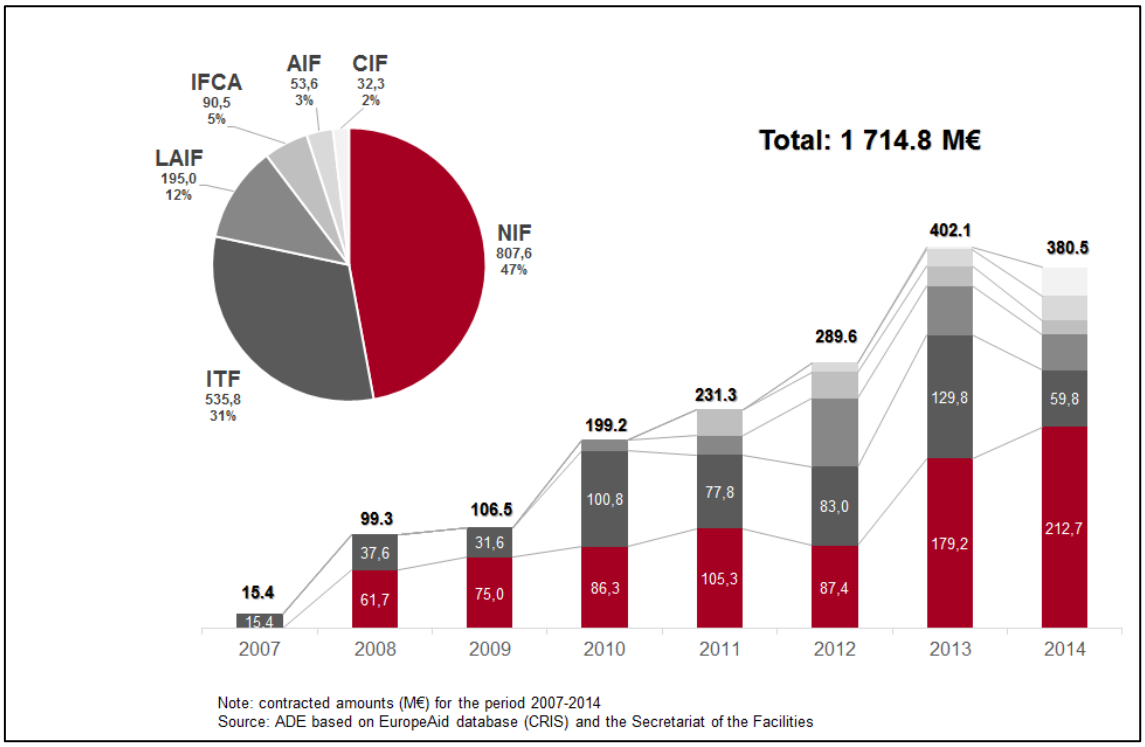
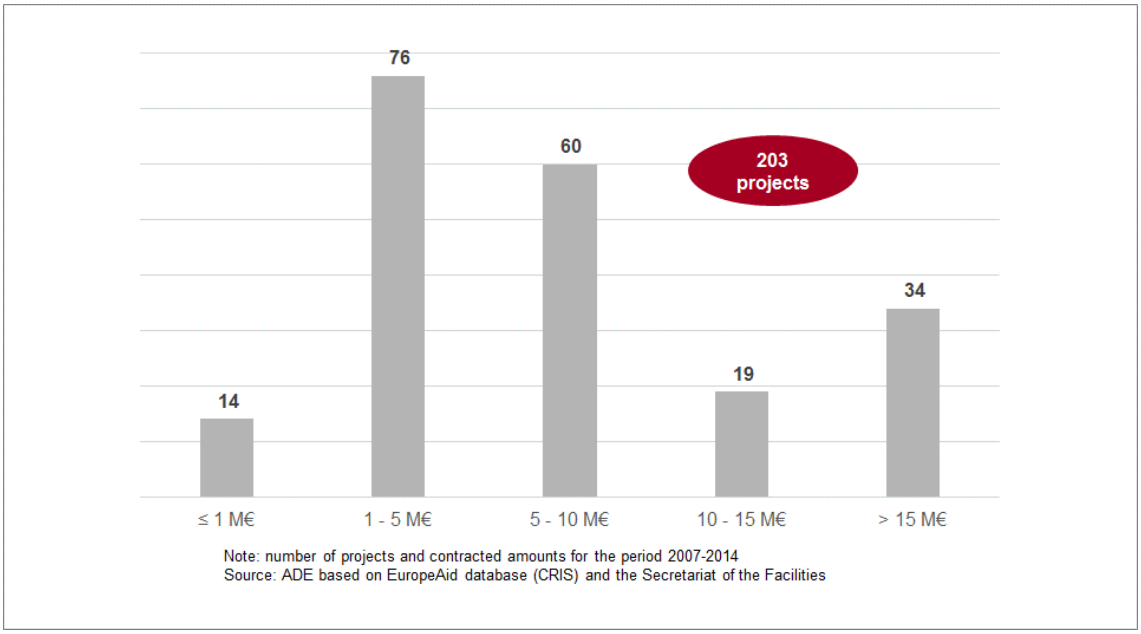


Figure 2 shows the range of EU blending projects by project size. The figure represents the EU contribution amounts. It is noted that 67% of the projects are between 1 and 10 Million Euros.

Figure 2 : Project size (EU contribution)



3. Type of support

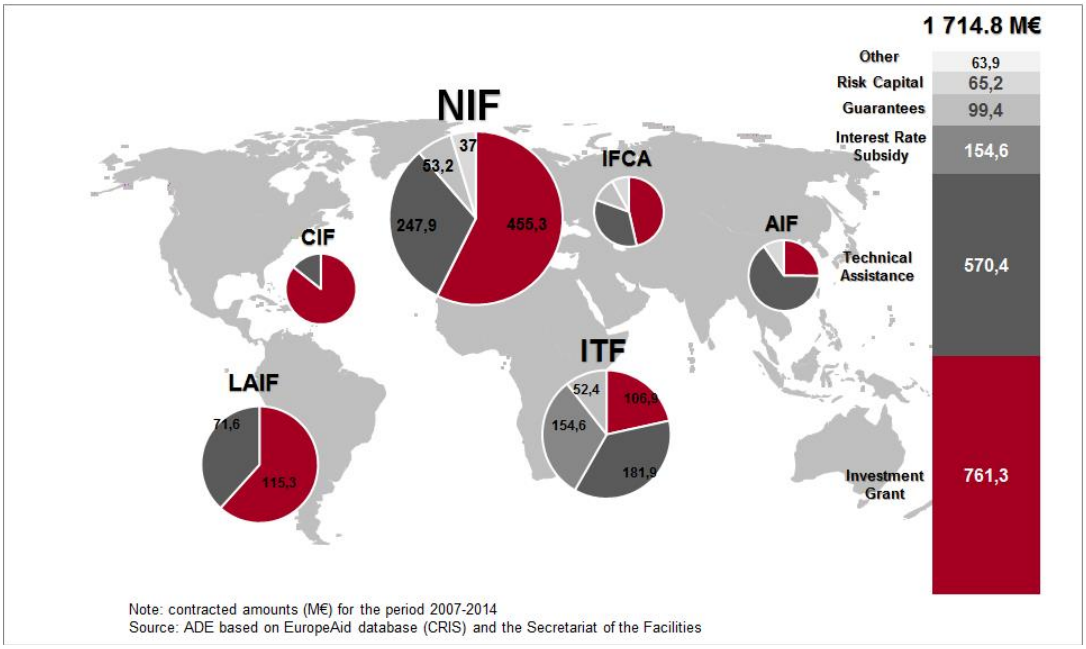
Investment Grants (44.4%) and Technical Assistance (33.3%) are the types of support most commonly provided. This confirms the findings from the literature review. It also reflects the historical focus on large infrastructure projects where these instruments are highly suitable compared to more recent efforts to stimulate the access to finance by SMEs where the risk sharing instruments are more suitable. Combined investment grans and TA represent 77.7% of EU support, and between 58% and 100% per facility. The proportion of each type of support varies in fact widely per facility. Interest rate subsidies are for instance only provided by the ITF, in which it represented 31.2 % of the contribution.

Out of the 203 projects, there are 53 (26%) where combined packages were used, which represent 672 M€ (40% of the EU total contribution for blending). The most common package is TA plus Grant, used in 37 projects. Other combinations less common are TA/Guarantees, TA/Risk Capital and TA/Interest Rate Subsidy. Technical Assistance is part of all the combined packages analysed.

Package	Number	% of total
TA/Guarantee	4	2.0%
TA/Risk Capital	4	2.0%
TA/Grant	37	18.2%
TA/IRS	7	3.5%
TA/IRS/Guarantee	1	0.5%
Total	53	26.2%

Source: ADE based on the Secretariats of the Facilities

Figure 3 : EU blending funding by type of support, 2007-2014



4. Sectors

Energy is by far the biggest sector in which EU blending has been provided (35%), followed by Transport (21%) and Water & Sanitation (20%).[4] These three sectors are also the main sectors in each facility, except for AIF and IFCA. Proportions vary nevertheless per facility, reflecting different focuses. These three main sectors represent for instance 96% of funding to the ITF, with energy first. They represent 68% in NIF, with similar proportions between them. In LAIF, combined they represent 80% although the main sector is Water & Sanitation, representing 45% of the total on its own. In IFCA and AIF, these sectors represent only 42% and 30%, respectively. In these facilities categories as multisectoral, industry and other (including Financial Services, Environmental Protection and Education) represent a larger proportion.

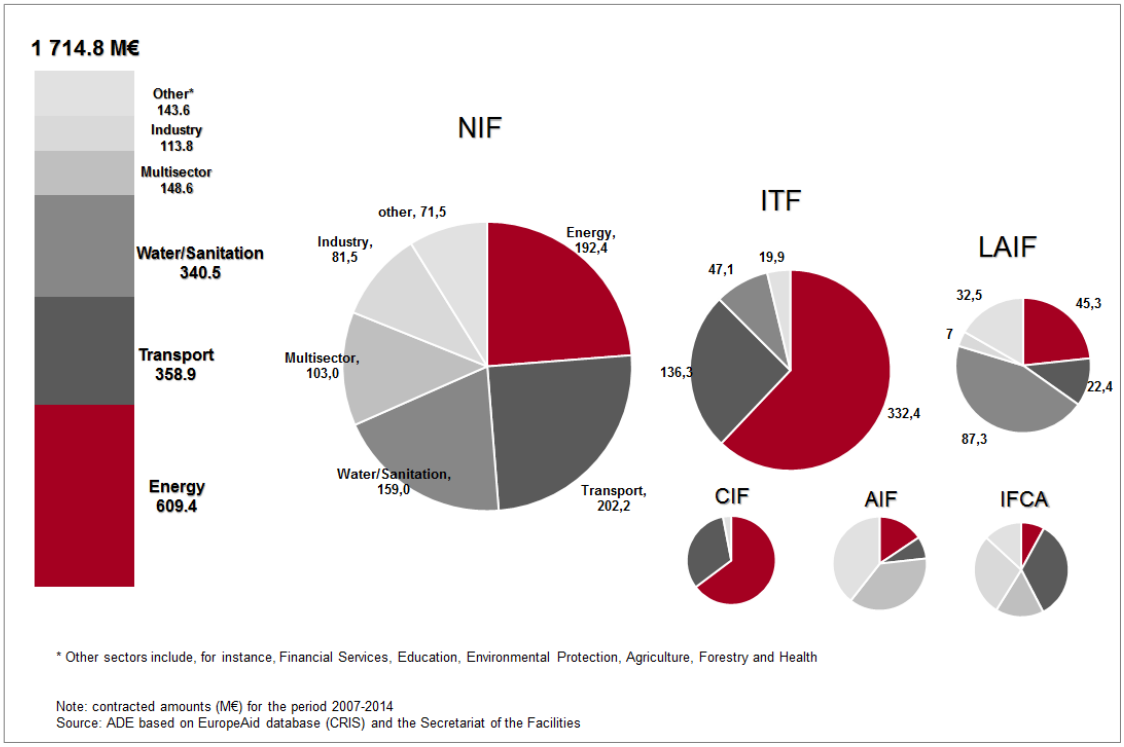
The focus on infrastructure noted in the figure below is also supported by the context analysis where it is noted that in the medium income countries that are the main market for blending, infrastructure needs take centre stage in the drive for economic growth. The overwhelming emphasis on infrastructure and especially energy also suggests that product diversification is needed at least in those countries already saturated with blending projects of an infrastructure nature.

The focus on infrastructure which is noted earlier also has potential implications for the type of beneficiary. Large infrastructure is likely to involve the public sector e.g. on a road network

[4] The sector for each project was determined using the DAC Code attributed to them.

– but not always, for example renewable energy facilities might often involve a public-private-partnership or even be driven entirely by the private sector.

Figure 4 : EU blending funding by sector



5. Countries

Two thirds of EU blending resources (68% or 756 M€) benefited Low-Middle Income Countries.[5] Funding to Low Income Countries represented 17% (191 M€) as shown in figure 13. Funding to Upper-Middle Income Countries 13% (149 M€) and 15 M€ to High Income Countries.[6] This distribution confirms the findings of the context analysis where it is argued that the rationale for blending is highest in middle and lower to middle income countries. The economy of these countries can support partly loan financed projects which the poorest cannot but the economy is not strong enough to support projects on purely commercial grounds.

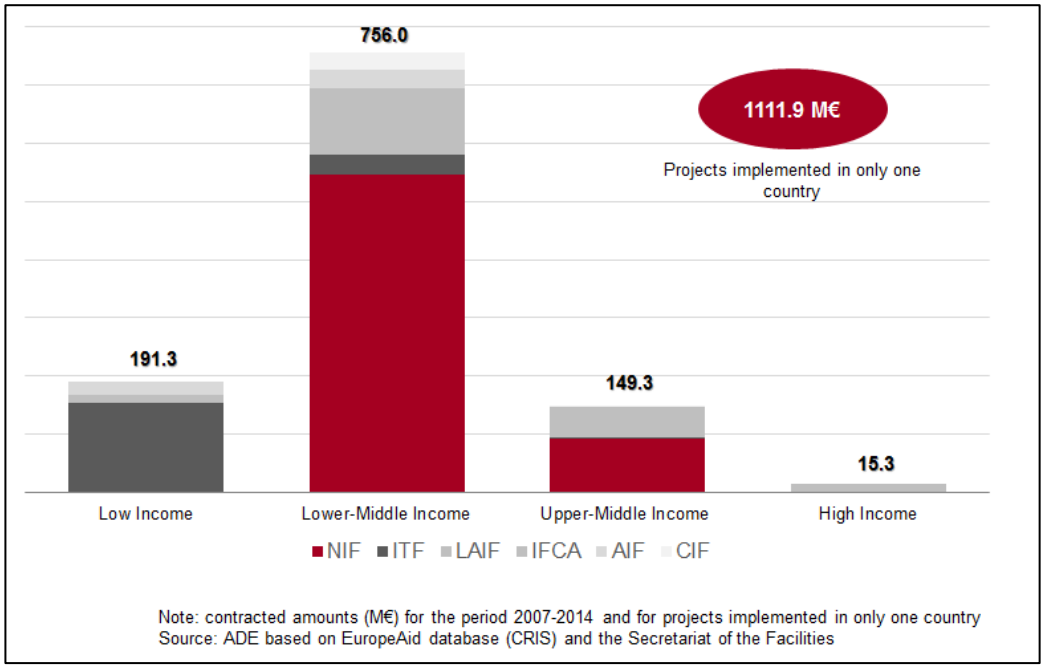
A large proportion of the support to Low-Middle Income Countries was delivered through NIF[7]. EU contributions to Low Income countries was mainly provided through ITF.

[5] Based on the World Bank Indicator "GNI, Atlas method (current US$)" from 1 July 2014. Low income economies (L) are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,045 or less in 2013; lower-middle income economies (LM) are those with a GNI per capita of more than $1,045 but less than or equal to $4,125; upper-middle income (UM) economies are those with a GNI per capita of more than $4,125 but less than or equal to $12,745; high income economies are those with a GNI per capita of $12,746 or more.

[6] Funding to projects covering multiple countries are not included in these calculations.

[7] World Bank indicators downloaded the 27/02/2015.

Figure 5 : EU blending funding by type of country

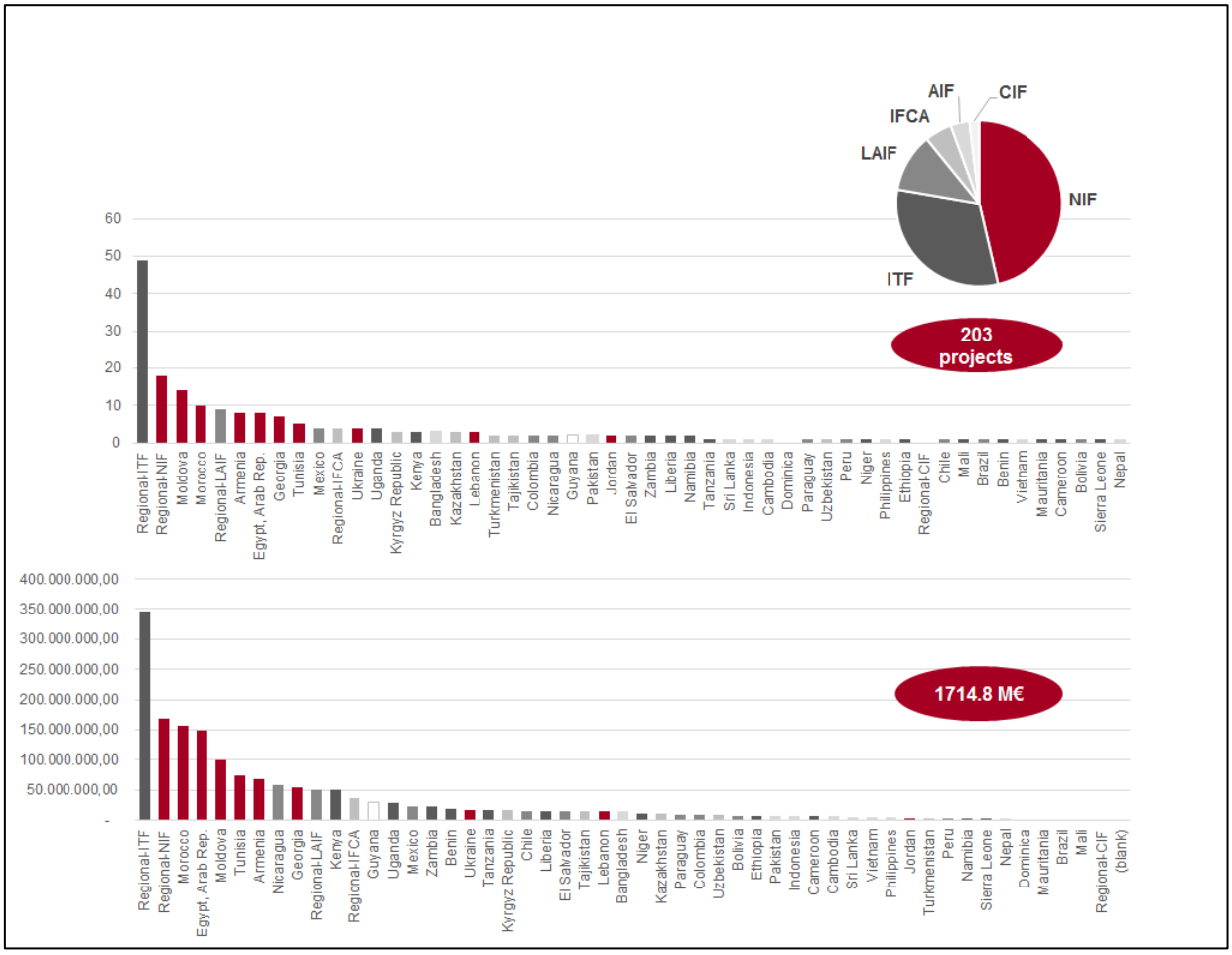


The five largest beneficiary countries from projects implemented in only one country are all from NIF (Morocco, Egypt, Moldova, Tunisia and Armenia). Projects relating to two or more countries amounted to 35.2% (602.8 M€). They represented 21% of the number of NIF projects. They amounted however to two thirds (65%) of ITF projects. The focus on regional infrastructure projects (35.7%) reflects the objective of many of the blending facilities which is to encourage regional integration. Regional integration is particularly emphasized in the objectives of ITF and the LAIF, and the data as shown in table below bears this out, indicating an adherence to policy.

Moreover, a total of 5 projects (2% of the total) were implemented in fragile states, one regarding AIF (in Nepal) and four under ITF (2 in Liberia, 1 in Mali and 1 in Sierra Leone)[8].

[8] World Bank harmonized list of fragile situations 2014.

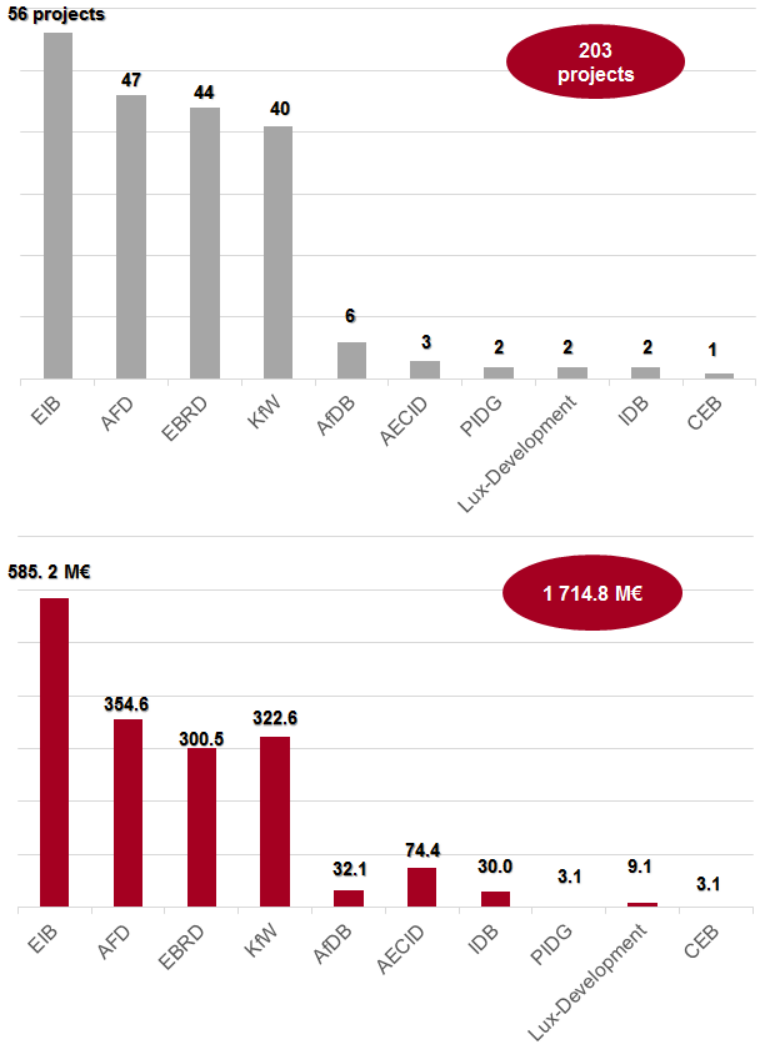
Figure 6 : EU blending funding by country



6. Lead Financial Institution and Implementing agencies

The EIB, EBRD, AFD, and KfW were the lead financial institutions of projects benefiting from EU blending, covering together 92% of the projects (187 out of 203 projects). There were nevertheless several other lead IFIs and implementing agencies, including for instance the Agencia Española de Cooperación Internacional para el Desarrollo (AECID), LuxDev or the Inter-American Development Bank (IDB). It would appear from this analysis as noted by other commentators that there is scope to involve and mobilise greater engagement of other EU IFIs and implementing agencies.

Figure 7 : EU blending funding by Lead International Financial Institution and implementing agencies



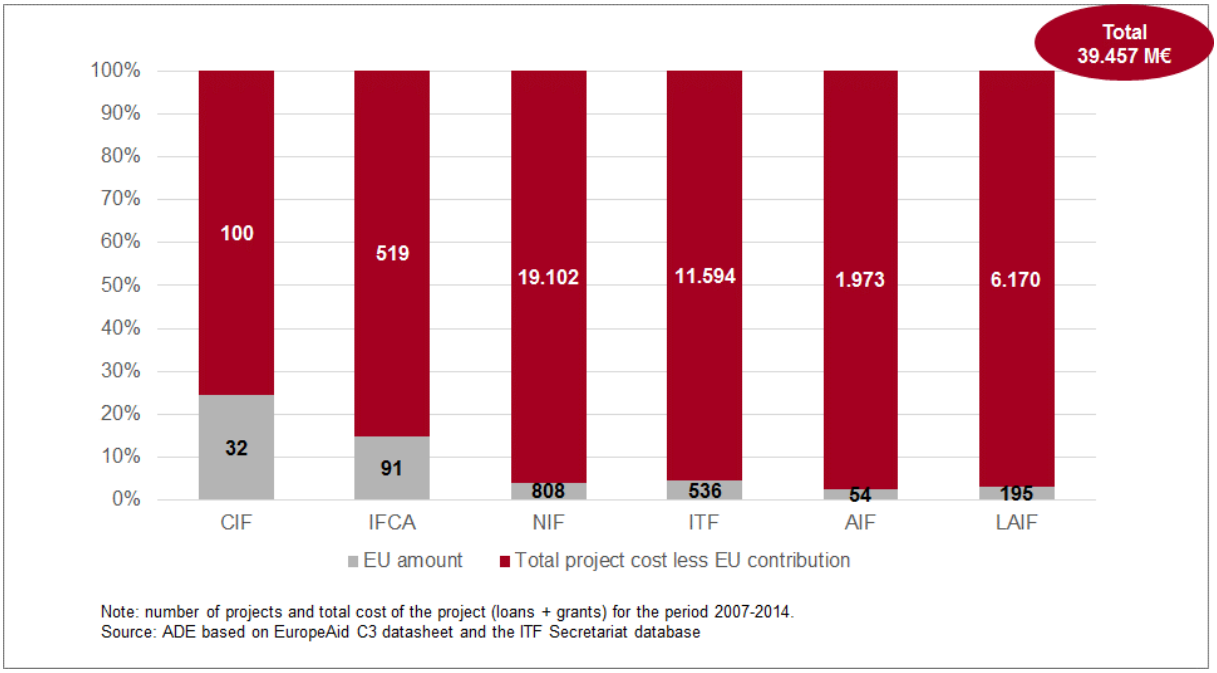
Note: number of projects and contracted amounts for the period 2007-2014
Source: ADE based on EuropeAid database (CRIS) and the Secretariat of the Facilities

7. Leverage

Datasets available indicate that the total amount of the loans reached almost 40 billion Euros, representing 23 times the EU blending contributions for those projects (1,714.8 M€).[9] The proportion of the amount that was leveraged varies widely between facilities. CIF and IFCA are the facilities where the EU contribution represents a highest proportion of the total amount (24% and 14% respectively) while in LAIF, AIF, NIF and ITF it represents only around 3%/4%.

[9] Loan figures used come from EuropeAid Unit C3's datasheet and complementary data from the ITF Secretariat.

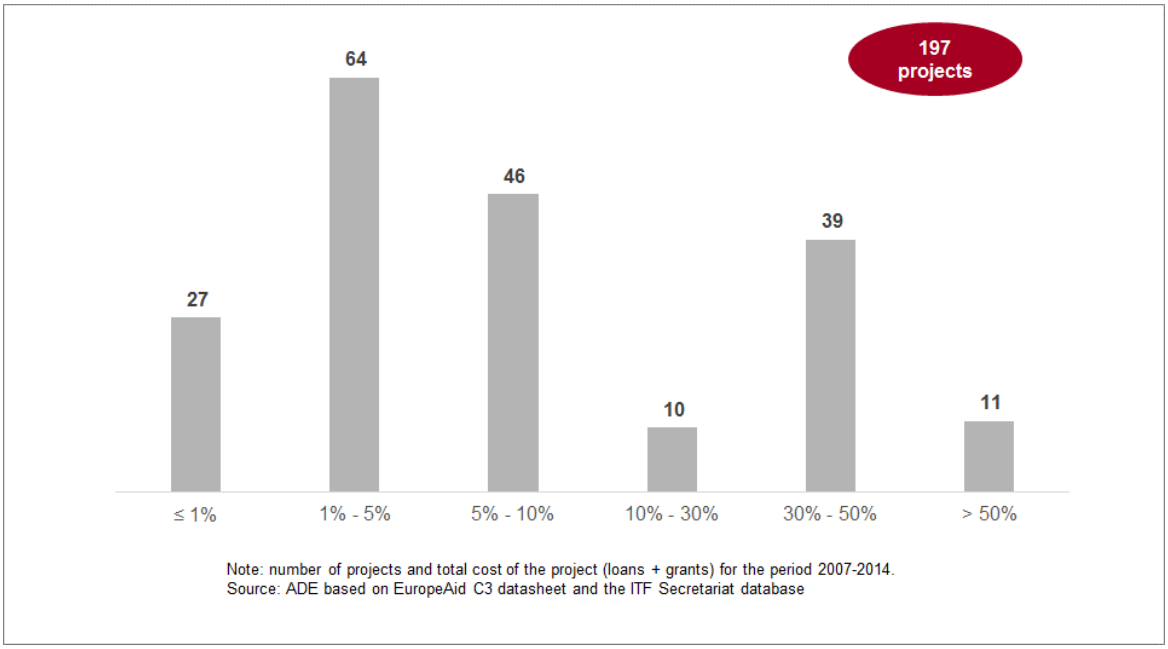
Figure 8 : EU contribution and leverage (in MEuros)



Note: number of projects and total cost of the project (loans + grants) for the period 2007-2014.
Source: ADE based on EuropeAid C3 datasheet and the ITF Secretariat database

In almost half of the projects (91 out of 197 projects) the EU contribution represents less than 5% of the total project cost and in only in 11 projects does it represent more than 50% of the total.

Figure 9 : EU contribution as a % of the total project cost[10]



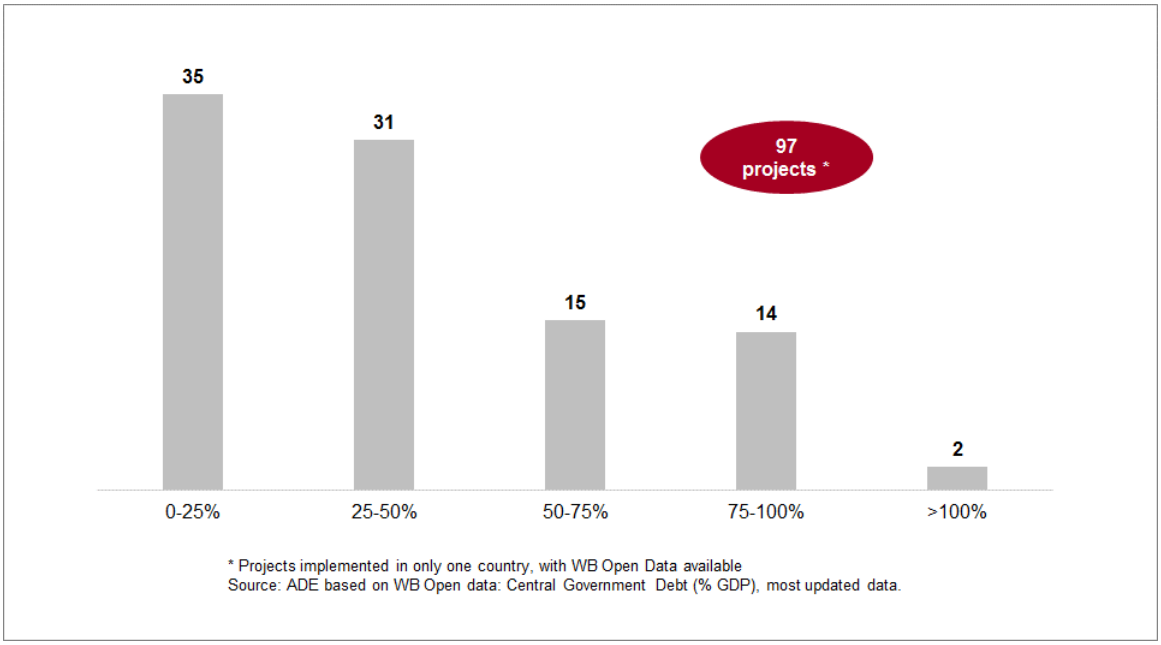
Note: number of projects and total cost of the project (loans + grants) for the period 2007-2014.
Source: ADE based on EuropeAid C3 datasheet and the ITF Secretariat database

[10] For all the analysis on the leverage were only included 197 projects due to the lack of information to the other 6 projects (all ITF and regional).

8. Public debt

A majority (68%) of blending projects relating to a single country were based in countries where public debt represents less than 50% of GDP. Still, fourteen projects (14% of 97) were in countries with a public debt representing between 75% and 100%. Two projects were in a country with a debt ratio higher than 100% of GDP.

Figure 10 : Public debt (% of GDP)



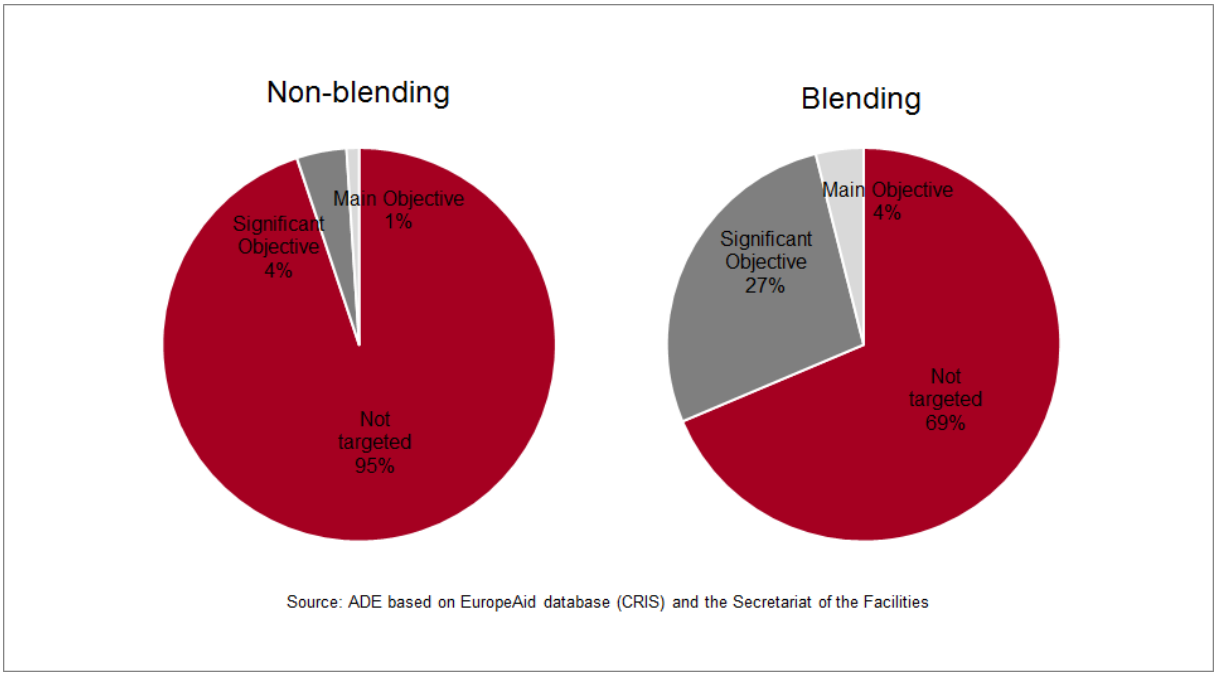
9. Environment Purposes

In this section the team undertook a statistical analysis to determine the degree to which blending projects targeted environmental benefits at design stage. It used the OECD/DAC statistical policy markers to monitor external development finance for environmental purposes, and more precisely the two Rio markers covering i) climate change adaptation and ii) climate change mitigation. The analysis compared blending projects with non-blending projects. It was made for the 13 countries the evaluation team visited during the field visits (Armenia, Benin, Colombia, Congo-Brazzaville, Egypt, Georgia, Ghana, Kenya, Moldova, Morocco, Mozambique, Namibia and Togo). It proposes overall, sector and country trends on the basis of the Rio markers provided for each EU contract approved from 2007 to 2014 in these 13 countries. The OECD monitoring system uses a scoring system of three values, in which development co-operation activities are "marked" as targeting the environment or the Rio Conventions as the "*principal*" objective or a "*significant*" objective, or as not targeting the objective.

a) Climate adaptation

Figure 11 shows that 31% of the Blending projects considered climate adaptation as a significant or main objective compared to 5% of the Non-blending projects.

Figure 11 : Focus on climate adaptation[11]: Non-blending vs Blending projects in the 13 countries visited



The table below compares the main sectors targeted by both non-blending and blending projects.

It shows that non-blending projects concentrated on majority on the 'government and civil society' and 'commodity aid and general programme assistance' areas while blending projects concentrated more on the energy and transport sectors. This could partly explain the difference observed when examining whether climate change adaptation was an objective of the projects or not.

Table 2 : Comparison Non-blending vs Blending projects sectors

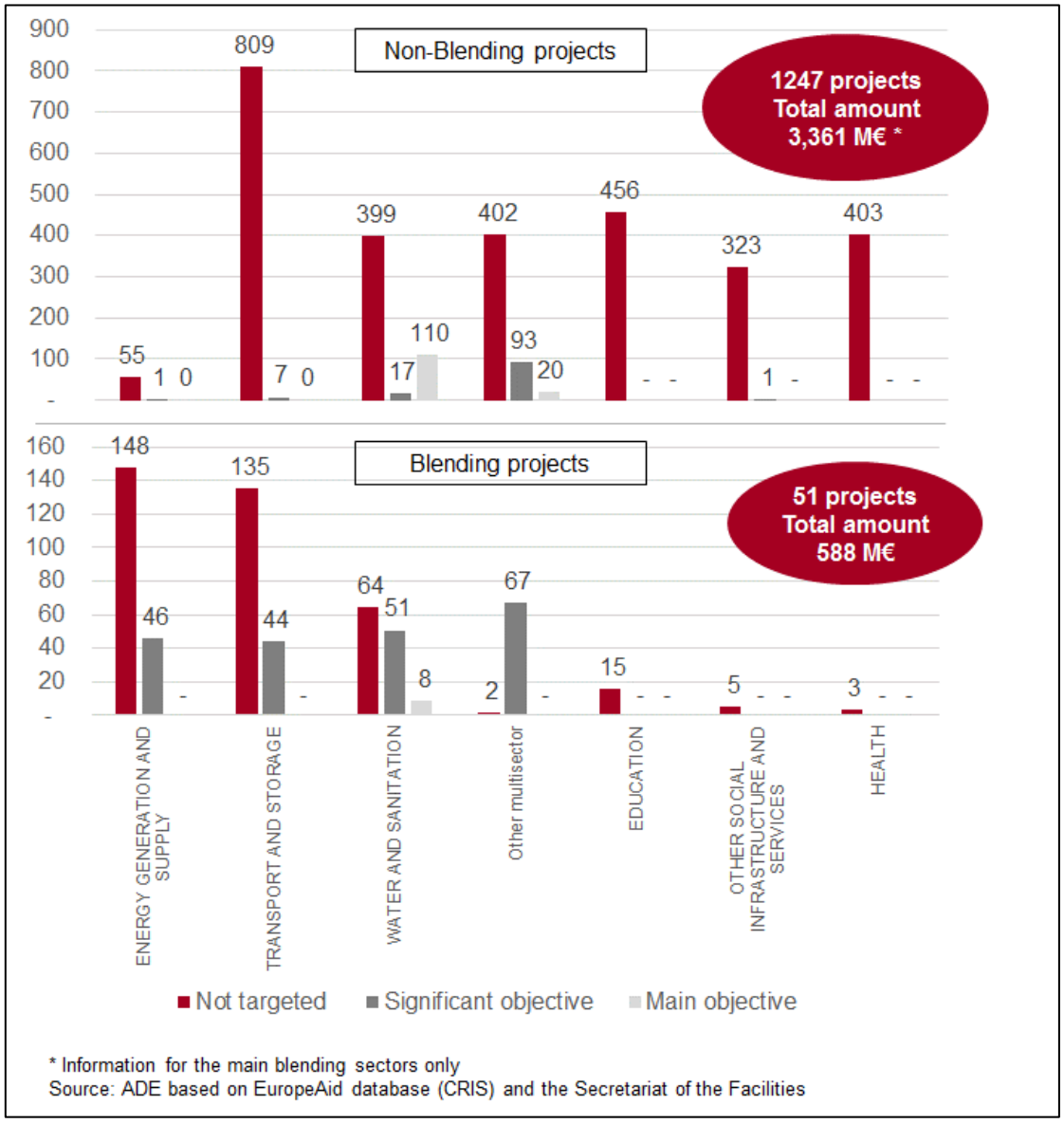
Main sectors[12] targeted by non-blending projects	EU contracted Amount	Main sectors targeted by blending projects	EU Amount
Government and civil society	1,274,404,901	Energy generation and supply	193,410,000
Commodity aid and general programme assistance	1,128,129,912	Transport and Storage	178,970,661
Transport and storage	891,247,181	Water supply and sanitation	123,269,600
Education	571,310,640	Other multisector	68,512,000
Agriculture	531,629,007	Education	15,400,000
Water supply and sanitation	527,077,943	Other social infrastructure and services	5,200,000
Multi-sector/cross-cutting	526,708,181	Health	3,100,000
Health	440,711,435		
Other social infrastructure and services	347,128,599		
Others	1,238,062,060		
Total	7,473,409,859	Total	587,862,261

11 A scoring system of three values was used by the team, in which activities were "marked" as targeting the environment or the Rio Conventions either as i) the "main" objective, ii) a "significant" objective, or iii) not targeting the environment as an objective. (OECD website)

12 Sectors defined according to the DAC codes

To further dig into the explanatory factors, Figure 12 shows a comparison between blending and non-blending projects within the same sectors. It can be noted that in proportion blending projects targeted more climate change adaptation than non-blending projects within the same sectors. This was particularly the case for energy, transport and storage, water and sanitation and other multi-sectors. For education, health and other social infrastructure, there is no significative difference between blending and non-blending projects.

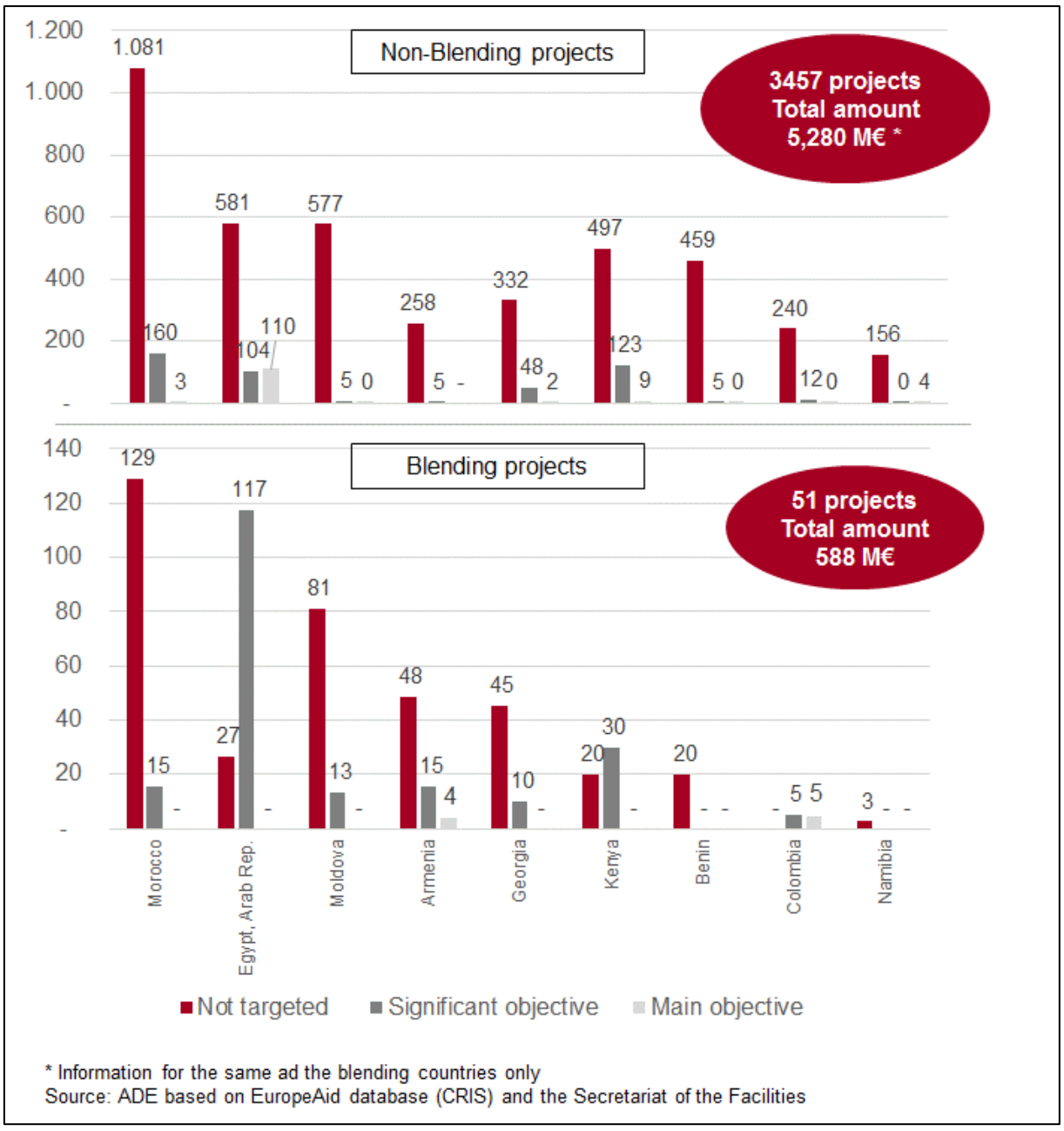
Figure 12 : Focus on climate adaptation: Non-blending vs Blending projects EU contracted amount by sector



* Information for the main blending sectors only
Source: ADE based on EuropeAid database (CRIS) and the Secretariat of the Facilities

Figure 13 shows the statistical analysis by country. In Egypt blending projects aimed at reaching climate change adaptation much more than non-blending ones. In Morocco, the proportion looks similar between blending and non-blending projects. In Colombia all the blending projects targeted climate change adaptation. There is no clear pattern.

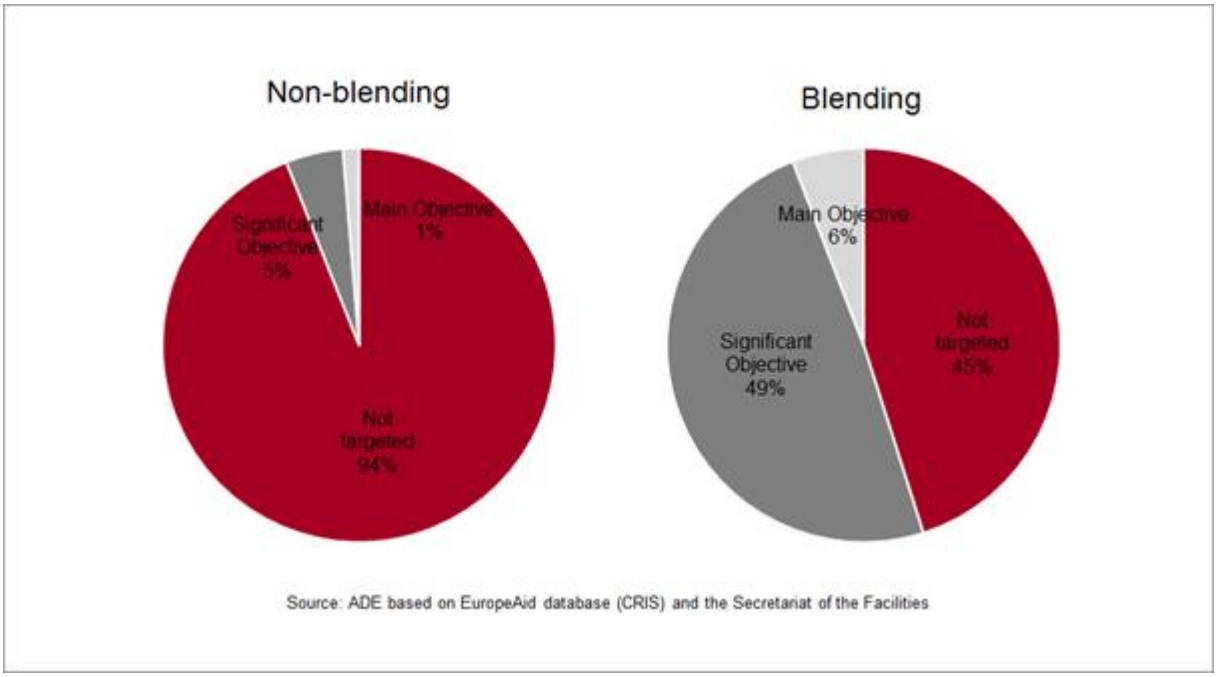
Figure 13 : Focus on climate adaptation: Non-blending vs Blending projects EU contracted amount in 9 countries



b) Climate change mitigation

Figure 14 below shows that 55% of the Blending projects considered climate adaptation as a significant or main objective compared to 6% of the Non-blending projects.

Figure 14 : Focus on climate mitigation: Non-blending vs Blending projects in the 13 visited countries



The same differences in sectors than for the climate change adaptation appear (see Table 2).

Figure 15 shows a comparison between blending and non-blending projects within the same sectors. We see that in proportion blending projects target more climate change mitigation than non-blending projects in the same sectors. This was particularly the case for energy, transport and storage, water and sanitation and other multi-sectors. For education, health and other social infrastructure, there is no significative difference between blending and non-blending projects.
It can also be noted that Water and Sanitation targets more climate change mitigation in blending projects than in non-blending projects.

Figure 15 : Focus on climate mitigation: Non-blending vs Blending projects EU contracted amount by sector

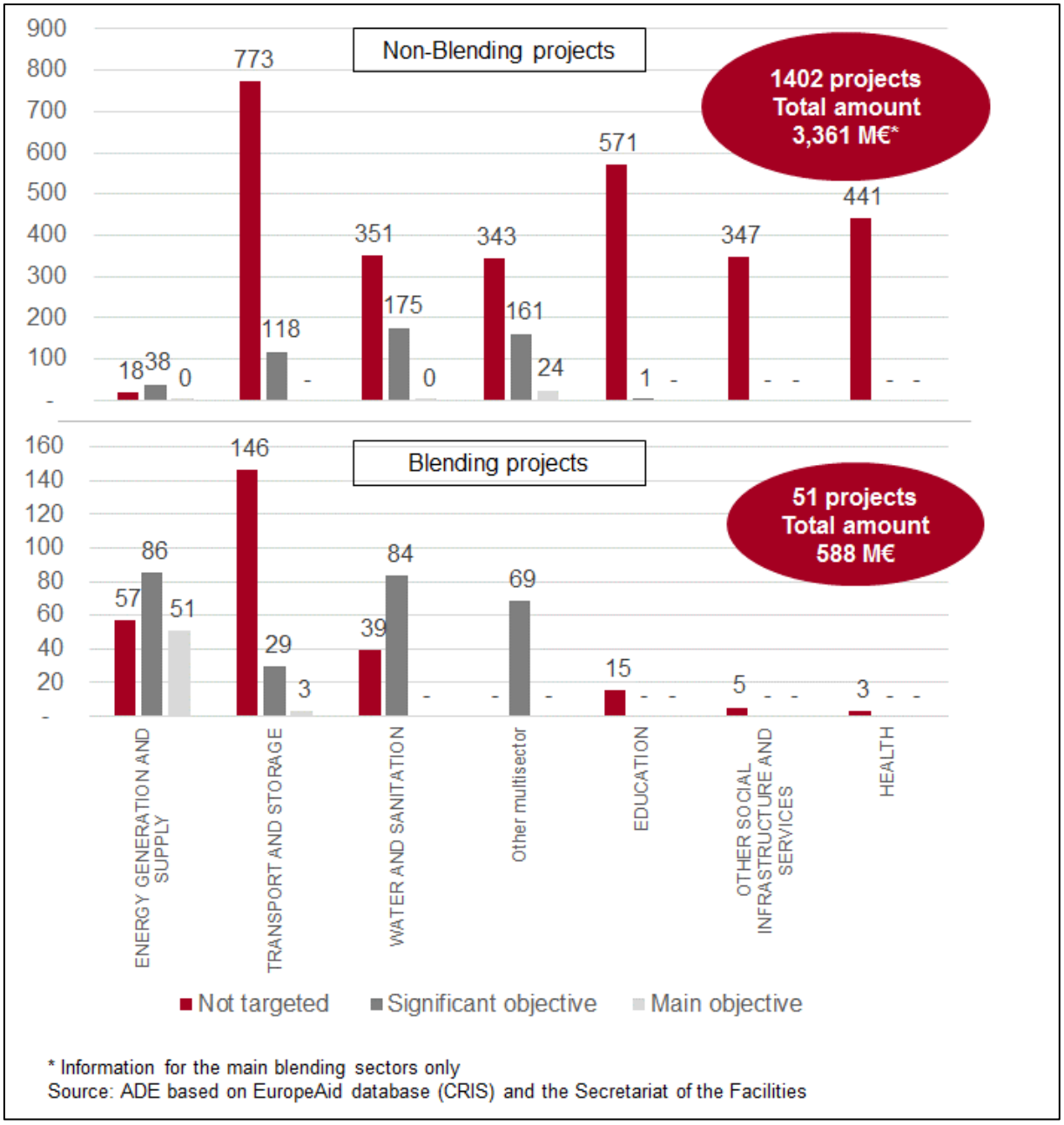
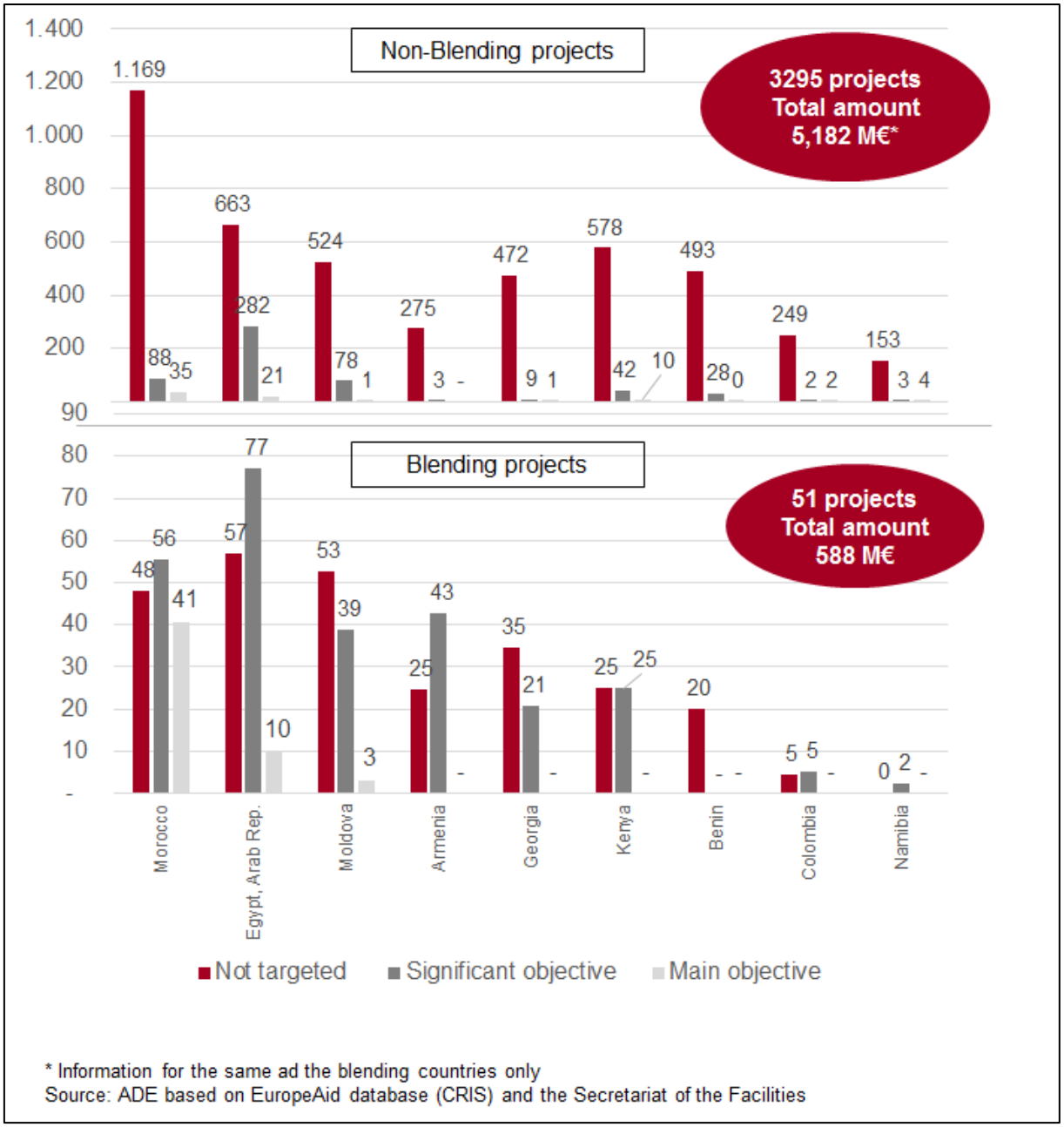


Figure 16 shows the comparison by country. Across countries, blending projects systematically put a stronger emphasis on climate mitigation than non-blending projects. When comparing with Figure xx above, it can be seen that blending projects in Morocco put more effort on climate change mitigation than adaptation.

Figure 16 : Focus on climate mitigation: Non-blending vs Blending projects EU contracted amount in 9 countries



* Information for the same ad the blending countries only
Source: ADE based on EuropeAid database (CRIS) and the Secretariat of the Facilities

10. Implications for the evaluation

- This inventory provides a reliable and unique database that didn't exist as such beforehand, It will hence form a sound basis for analyses to be performed in this evaluation,
- It also helped the evaluators to select a balanced and representative sample of interventions for in-depth study,

- It represents a portfolio review of the object under the study, This gives a sound understanding of how blending has materialized along the years and the sort of projects that have been supported,
- It provides insights to answer the evaluations questions, It gives, for example, an idea of the leverage blending generated or an indication of the public debt in the countries that have received blending funds.

11. List of projects per facility

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
AIF	2012	302242	Subscription and Management in the name of KfW and for the account of the European Commission of a participation in the Microfinance Initiative for Asia (MIFA) as well as a contribution to the ancillary TA Facility.	Regional-AIF	KfW	9,220,000.00	Banking and financial services	Mix
AIF	2012	307540	Capacity Building and Development of the Hydropower Sector in Pakistan	Pakistan	AFD	2,675,000.00	Education	Technical Assistance
AIF	2012	308824	AIF contribution to the Indonesia Carbon-linked Incentive Scheme (CLS) programme	Indonesia	KfW	7,280,000.00	General environmental protection	Mix
AIF	2013	332088	Dhakka Urban Transport	Bangladesh	AFD	3,000,000.00	Other multisector	Technical Assistance
AIF	2013	333671	Efficient Transmission of Electricity from Renewable Energy Sources in Nepal	Nepal	KfW	2,407,500.00	General environmental protection	Investment Grant
AIF	2013	334241	Improvement of access to electricity and water in small towns and rural areas	Cambodia	AFD	6,288,000.00	Other multisector	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
AIF	2013	335201	Technical Assistance Support to the Bangladesh Power Energy Efficiency Project	Bangladesh	EIB	5,928,000.00	Energy generation and supply	Technical Assistance
AIF	2014	339109	Production and publication of the 2013 and 2014 Investment Facility for Central Asia (IFCA), Asian Investment Facility (AIF) and Investment Facility for the Pacific (IFP) Annual Operational Reports	N/A	N/A	70,984.00	Other multisector	other
AIF	2014	353706	AIF contribution to the project "Warsak Hydropower Plant Rehabilitation"	Pakistan	AFD	4,700,000.00	Energy generation and supply	Mix
AIF	2014	353715	Supporting sustainable urban infrastructure development in Ho Chi Minh City area	Vietnam	AFD	5,200,000.00	Other multisector	Mix
AIF	2014	353725	Disaster Risk Management and Institutional Strengthening of Local Government Units (DRM-IS)	Philippines	AFD	4,992,000.00	Other multisector	Technical Assistance
AIF	2014	354015	Sanitation and Hygiene Initiative for Towns (SHIFT)" project in Sri Lanka.	Sri Lanka	AFD	5,928,000.00	Other multisector	Technical Assistance
AIF	2014	354145	Dhaka Environmentally Sustainable Water Supply Project II	Bangladesh	AFD	5,200,000.00	Water and sanitation	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
CIF	2013	312762	CIF: Regional Launch of the Caribbean Investment Facility. 21-22 March Barbados	Regional-CIF	AFD	97,315.00	Other multisector	Technical Assistance
CIF	2013	316241	"Support to the development of Geothermal Energy"	Dominica	AFD	2,140,000.00	Energy generation and supply	Technical Assistance
CIF	2014	346944	Water Supply and Sanitation Infrastructure Improvement Programme	Guyana	IDB	10,675,000.00	Water and sanitation	Investment Grant
CIF	2014	346960	Power Utility Upgrade Programme	Guyana	IDB	19,375,000.00	Energy generation and supply	Investment Grant
IFCA	2011	278348	"Central Asian Technical Assistance Framework for the preparation and implementation of EBRD Municipal and Environmental Infrastructure Projects"	Regional-IFCA	EBRD	8,300,000.00	Other multisector	Technical Assistance
IFCA	2011	279688	Sugd Energy Loss Reduction Project	Tajikistan	EBRD	1,900,000.00	Energy generation and supply	Mix
IFCA	2011	279940	"IFCA grant in support of EBRD window of the Kazakhstan Sustainable Energy Financing Facility (KazSEFF II)"	Kazakhstan	EBRD	2,600,000.00	Industry	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
IFCA	2011	280369	Central Tajik Water Rehabilitation (Tajikistan)	Tajikistan	EBRD	7,200,000.00	Water and sanitation	Mix
IFCA	2011	280619	IFCA grant in support of the EIB window of the Kazakhstan Sustainable Energy Financing Facility ("KazSEFF"),	Kazakhstan	EIB	2,600,000.00	Industry	Mix
IFCA	2011	283027	Sugd Energy Loss Reduction Project	Tajikistan	EBRD	5,300,000.00	Energy generation and supply	Mix
IFCA	2012	284317	Production and publication of the 2010-2011 Central Asia Investment Facility (IFCA) Operational Report	N/A	N/A	35099,78	Unallocated / unspecified	other
IFCA	2012	302242	Subscription and Management in the name of KfW and for the account of the European Commission of a participation in the Microfinance Initiative for Asia (MIFA) as well as a contribution to the ancillary TA Facility.	Regional-IFCA	KfW	9,220,000.00	Banking and financial services	Mix
IFCA	2012	308996	"Kyrgyzstan Sustainable Energy Financing Facility (KyrSEFF)"	Kyrgyz Republic	EBRD	7,000,000.00	Industry	Mix
IFCA	2012	309003	IFCA contribution to the SME Finance Facility in Central Asia	Regional-IFCA	EBRD	11,240,000.00	Industry	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
IFCA	2013	333285	Framework for Strengthening Municipal Infrastructure in Central Asia – Selected Projects of the Water Component	Regional-IFCA	EBRD	7,530,250.00	Water and sanitation	Investment Grant
IFCA	2013	335400	Bishkek Solid Waste Project in Kyrgyz Republic	Kyrgyz Republic	EBRD	8,220,000.00	Water and sanitation	Investment Grant
IFCA	2013	335846	IFCA contribution to "Framework for Technical Assistance in Kazakhstan"	Kazakhstan	EBRD	3,250,000.00	Other multisector	Technical Assistance
IFCA	2013	336124	"Technical Assistance to KazAgro Climate loan for SMEs, Midcaps and MSMEs"	Kazakhstan	EIB	1,926,000.00	Industry	Technical Assistance
IFCA	2014	353377	Turkmenistan Project Identification Study	Turkmenistan	EBRD	1,091,400.00	Other multisector	Technical Assistance
IFCA	2014	353387	Implementation of Enterprise Growth Programme (EGP) and Business Advisory Services (BAS) in Turkmenistan	Turkmenistan	EBRD	2,650,000.00	Business and other services	Technical Assistance
IFCA	2014	354161	Tokmok water project	Kyrgyz Republic	EBRD	2,268,400.00	Other multisector	Investment Grant
IFCA	2014	354878	Improvement of the solid waste management system in the City of Samarkand	Uzbekistan	AFD	8,248,000.00	Water and sanitation	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2007	3	Felou Hydropower plant	Regional-ITF	EIB	9,335,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2007	4	Ethiopia-Kenya Interconnector (EAPP)	Regional-ITF	KfW	337,414.51	Energy generation and supply	Technical Assistance
ITF	2007	5	CLSG Interconnection Project	Regional-ITF	EIB	3,168,233.00	Energy generation and supply	Technical Assistance
ITF	2007	101	EASSy	Regional-ITF	EIB	2,600,000.00	Communication	Technical Assistance
ITF	2008	26	Caprivi Interconnector	Regional-ITF	EIB	15,000,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2008	27	Ruzizi III Hydropower	Regional-ITF	EIB	3,739,896.39	Energy generation and supply	Technical Assistance
ITF	2008	28	Beira Corridor	Regional-ITF	EIB	17,828,379.80	Transport and storage	Interest Rate Subsidy
ITF	2008	29	OMVS Gouina Hydropower Plant	Mali	AFD	1,000,000.00	Energy generation and supply	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2009	30	ECOWAS Electricity Regulation (ERERA)	Regional-ITF	AFD	1,700,000.00	Energy generation and supply	Technical Assistance
ITF	2009	57	WAPP - Coastal Backbone transmission line	Regional-ITF	EIB	1,750,000.00	Energy generation and supply	Technical Assistance
ITF	2009	71	Expansion of Port of Walvis Bay	Namibia	KfW	280,611.64	Transport and storage	Technical Assistance
ITF	2009	100	Port de Pointe Noire (PAPN)	Regional-ITF	AFD	6,600,000.00	Transport and storage	Interest Rate Subsidy
ITF	2009	100	Port de Pointe Noire (PAPN)	Regional-ITF	AFD	2,000,000.00	Transport and storage	Technical Assistance
ITF	2009	143	Benin - Togo Power Rehabilitation	Regional-ITF	EIB	12,250,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2009	144	Update of the WAPP Masterplan	Regional-ITF	EIB	1,306,623.80	Energy generation and supply	Technical Assistance
ITF	2009	161	Jomo Kenyatta International Airport Extension	Regional-ITF	EIB	5,000,000.00	Transport and storage	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2009	174	Mozambique Backbone Transmission System (STE)	Regional-ITF	EIB	700,000.00	Energy generation and supply	Technical Assistance
ITF	2010	79	Kibuye-Goma-Birembo Interconnector	Regional-ITF	KfW	761,258.00	Energy generation and supply	Technical Assistance
ITF	2010	83	Satellite enhanced Telemedicine and e-Health for Sub-Saharan Africa (eHSA)	Regional-ITF	Lux-Development	4,000,000.00	Communication	Technical Assistance
ITF	2010	146	Rehabilitation of the Great East Road	Regional-ITF	EIB	1,500,000.00	Transport and storage	Technical Assistance
ITF	2010	146	Rehabilitation of the Great East Road	Regional-ITF	EIB	24,500,000.00	Transport and storage	Interest Rate Subsidy
ITF	2010	146	Rehabilitation of the Great East Road	Regional-ITF	AFD	13,700,000.00	Transport and storage	Interest Rate Subsidy
ITF	2010	148	Access to Douala	Cameroon	AFD	5,700,000.00	Transport and storage	Interest Rate Subsidy
ITF	2010	150	AXIS - The African Internet Exchange System	Regional-ITF	Lux-Development	5,100,000.00	Communication	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2010	153	Capacity building for BOAD (focussed on climate change, environmental and social issues in project financing)	Regional-ITF	EIB	900,000.00	Unallocated / unspecified	Technical Assistance
ITF	2010	155	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	Regional-ITF	AFD	2,000,000.00	Energy generation and supply	Technical Assistance
ITF	2010	162	Kampala Water - LVWATSAN	Regional-ITF	KfW	14,000,000.00	Water and sanitation	Interest Rate Subsidy
ITF	2010	162	Kampala Water - LVWATSAN	Regional-ITF	KfW	8,000,000.00	Water and sanitation	Technical Assistance
ITF	2010	168	Mount Coffee Hydropower Plant	Regional-ITF	EIB	1,140,528.00	Energy generation and supply	Technical Assistance
ITF	2010	170	Namibian Transport Master Plan	Regional-ITF	EIB	494,900.60	Transport and storage	Technical Assistance
ITF	2010	178	Tanzania Backbone Interconnector	Regional-ITF	EIB	13,700,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2010	199	Seychelles Submarine Cable Project	Regional-ITF	EIB	3,915,984.34	Communication	Guarantees
ITF	2010	208	Feasibility study for the Western part of Umojanet	Regional-ITF	AFD	1,350,000.00	Communication	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2011	5	CLSG Interconnection Project	Regional-ITF	EIB	1,581,767.00	Energy generation and supply	Technical Assistance
ITF	2011	156	Geothermal Risk Mitigation Facility for Eastern Africa (GRMF)	Regional-ITF	KfW	30,000,000.00	Energy generation and supply	Guarantees
ITF	2011	174	Mozambique Backbone Transmission System (STE)	Regional-ITF	AFD	1,500,000.00	Energy generation and supply	Technical Assistance
ITF	2011	209	Mauritania Submarine Cable	Mauritania	EIB	1,626,790.62	Communication	Interest Rate Subsidy
ITF	2011	212	Transboundary Water Supply Calueque (Angola) - Oshakati (Namibia)	Regional-ITF	KfW	2,400,000.00	Water and sanitation	Technical Assistance
ITF	2011	215	Transmission Line Kafue-Livingstone	Zambia	EIB	350,000.00	Energy generation and supply	Technical Assistance
ITF	2011	215	Transmission Line Kafue-Livingstone	Zambia	EIB	5,200,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2011	219	Kazungula Bridge and Border Project (KBBP)	Regional-ITF	AfDB	1,000,000.00	Transport and storage	Technical Assistance
ITF	2011	220	Maputo International Airport	Regional-ITF	AFD	1,600,000.00	Transport and storage	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2011	223	WAPP Power Interconnection in West Africa (Ghana-Burkina Faso-Mali)	Regional-ITF	AFD	1,200,000.00	Energy generation and supply	Technical Assistance
ITF	2011	224	Development and implementation of a Social and Environmental Management System at BOAD	Regional-ITF	AfDB	400,000.00	Unallocated / unspecified	Technical Assistance
ITF	2011	227	Interconnection Bolgatanga-Ouagadougou	Regional-ITF	EIB	6,700,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2011	227	Interconnection Bolgatanga-Ouagadougou	Regional-ITF	AFD	4,800,000.00	Energy generation and supply	Technical Assistance
ITF	2011	227	Interconnection Bolgatanga-Ouagadougou	Regional-ITF	AFD	2,800,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2011	289	Eastern Africa Transport Corridor	Regional-ITF	EIB	16,600,000.00	Transport and storage	Interest Rate Subsidy
ITF	2012	5	CLSG Interconnection Project	Regional-ITF	EIB	12,500,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2012	5	CLSG Interconnection Project	Regional-ITF	AfDB	10,000,000.00	Energy generation and supply	Guarantees

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2012	74	Itezhi Tezhi Hydropower	Zambia	EIB	17,600,000.00	Energy generation and supply	Interest Rate Subsidy
ITF	2012	74	Itezhi Tezhi Hydropower	Zambia	EIB	600,000.00	Energy generation and supply	Technical Assistance
ITF	2012	173	Mauritius Container Terminal Extension	Cameroon	AFD	3,000,000.00	Transport and storage	Guarantees
ITF	2012	213	Africa Sustainable Energy Facility (ASEF)	Regional-ITF	EIB	3,000,000.00	Energy generation and supply	Technical Assistance
ITF	2012	213	Africa Sustainable Energy Facility (ASEF)	Regional-ITF	EIB	5,000,000.00	Energy generation and supply	Guarantees
ITF	2012	216	ASECNA	Regional-ITF	EIB	2,000,000.00	Transport and storage	Technical Assistance
ITF	2012	219	Kazungula Bridge and Border Project (KBBP)	Regional-ITF	AfDB	2,000,000.00	Transport and storage	Technical Assistance
ITF	2012	292	Mwanza Water - LV WATSAN	Tanzania	AFD	1,500,000.00	Water and sanitation	Technical Assistance
ITF	2012	292	Mwanza Water - LV WATSAN	Tanzania	EIB	10,700,000.00	Water and sanitation	Interest Rate Subsidy

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2012	292	Mwanza Water - LV WATSAN	Tanzania	EIB	5,500,000.00	Water and sanitation	Technical Assistance
ITF	2012	294	Togo-Burkina Faso Road Corrdior: Lome-Ouaga Road and Transport Facilitation Project	Regional-ITF	AfDB	2,340,000.00	Transport and storage	Technical Assistance
ITF	2012	313	Masaka-Mbarara 220 kV Transmission Line	Uganda	AFD	800,000.00	Energy generation and supply	Technical Assistance
ITF	2012	315	Africa Energy Guarantee Fund (AEGF)	Regional-ITF	EIB	1,000,000.00	Energy generation and supply	Technical Assistance
ITF	2012	318	Bumbuna Phase II Hydro-electric Project - Sierra Leone	Sierra Leone	PIDG	2,500,000.00	Energy generation and supply	Technical Assistance
ITF	2012	320	Rehabilitation of Ruzizi I and II	Regional-ITF	KfW	3,000,000.00	Energy generation and supply	Technical Assistance
ITF	2013	155	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	Regional-ITF	AFD	2,100,000.00	Energy generation and supply	Technical Assistance
ITF	2013	205	Lake Victoria Regional Transport Project	Regional-ITF	PIDG	600,000.00	Transport and storage	Technical Assistance
ITF	2013	314	GET FiT East Africa Program - Uganda Roll-Out Phase 1	Uganda	KfW	20,000,000.00	Energy generation and supply	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2013	324	Green Energy Finance for Indian Ocean Region (GEFIOR)	Regional-ITF	AFD	1,700,000.00	Energy generation and supply	Technical Assistance
ITF	2013	325	ASECNA - Programme EGNOS	Regional-ITF	EIB	5,000,000.00	Transport and storage	Technical Assistance
ITF	2013	328	Financing EE and RE investments of private companies in West Africa	Regional-ITF	AFD	4,500,000.00	Energy generation and supply	Investment Grant
ITF	2013	328	Financing EE and RE investments of private companies in West Africa	Regional-ITF	AFD	1,500,000.00	Energy generation and supply	Technical Assistance
ITF	2013	330	Access to Electricity in the Atlantique Province in Benin	Benin	AFD	20,000,000.00	Energy generation and supply	Investment Grant
ITF	2013	331	Mauritania - Senegal interconnection	Regional-ITF	AFD	5,500,000.00	Energy generation and supply	Technical Assistance
ITF	2013	334	Lake Turkana Wind Power	Kenya	EIB	25,000,000.00	Energy generation and supply	other
ITF	2013	335	Extension of NIGELEC Networks	Niger	AFD	11,000,000.00	Energy generation and supply	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2013	336	Regional Rusumo Falls Hydropower Project	Regional-ITF	AfDB	12,750,000.00	Energy generation and supply	Investment Grant
ITF	2013	336	Regional Rusumo Falls Hydropower Project	Regional-ITF	AfDB	250,000.00	Energy generation and supply	Technical Assistance
ITF	2013	337	Congo-Gabon: Brazzaville-Libreville road Transport Facilitation Project	Regional-ITF	AfDB	3,402,100.00	Transport and storage	Technical Assistance
ITF	2013	338	Liberia Via Reservoir	Liberia	EIB	4,800,000.00	Energy generation and supply	Technical Assistance
ITF	2013	339	Liberia Energy Access	Liberia	AfDB	10,000,000.00	Energy generation and supply	Investment Grant
ITF	2013	340	Clean Cooking Program for Africa (GLPGP)	Regional-ITF	KfW	1,700,000.00	Energy generation and supply	Technical Assistance
ITF	2014	173	Mauritius Container Terminal Extension	Cameroon	AFD	1,200,000.00	Transport and storage	Technical Assistance
ITF	2014	293	Kisumu Water - LVWATSAN	Kenya	AFD	5,000,000.00	Water and sanitation	Technical Assistance
ITF	2014	311	Renewable Energy Performance Platform (REPP)	Regional-ITF	EIB	15,000,000.00	Energy generation and supply	other

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
ITF	2014	341	Support for Geothermal Development in Tendaho (Ethiopia)	Ethiopia	AFD	4,500,000.00	Energy generation and supply	Technical Assistance
ITF	2014	341	Support for Geothermal Development in Tendaho (Ethiopia)	Ethiopia	AFD	3,000,000.00	Energy generation and supply	Investment Grant
ITF	2014	342	Namibia Biomass and Solar Power	Namibia	EIB	2,300,000.00	Energy generation and supply	Technical Assistance
ITF	2014	343	Uganda Rural electrification Project	Uganda	AFD	1,200,000.00	Energy generation and supply	Technical Assistance
ITF	2014	343	Uganda Rural electrification Project	Uganda	AFD	7,100,000.00	Energy generation and supply	Investment Grant
ITF	2014	344	Mbale-Bulambuli Transmission Line	Uganda	KfW	500,000.00	Energy generation and supply	Technical Assistance
ITF	2014	372	Regional Mombasa Port Road Access Project	Kenya	KfW	20,000,000.00	Transport and storage	Investment Grant
LAIF	2010	252321	KfW-01 Energy Efficiency and Renewable Energy programme for SME in Central America	Regional-LAIF	KfW	3,000,000.00	Industry	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
LAIF	2010	255557	LAIF NI-01: Sustainable Electrification and Renewable Energy National Programme (PNESER) in Nicaragua.	Nicaragua	EIB	7,000,000.00	Energy generation and supply	Investment Grant
LAIF	2010	257767	AFD-01 Linking REDD+ mechanism with local implementation, the forest component of the Special Climate Change Programme of Mexico (PECC)	Mexico	AFD	2,140,000.00	Forestry	Technical Assistance
LAIF	2011	257756	KfW-02 Climate Change Programme. Latin America Region. Technical Assistance	Regional-LAIF	KfW	3,000,000.00	General environmental protection	Technical Assistance
LAIF	2011	261035	Extension of the existing hydro power plant "5 de Noviembre" in El Salvador	El Salvador	KfW	6,000,000.00	Energy generation and supply	Investment Grant
LAIF	2011	265629	Sustainable transport networks in Latin America	Regional-LAIF	AFD	3,000,000.00	Transport and storage	Technical Assistance
LAIF	2011	283236	LAIF contribution to the Rural Road Programme in El Salvador	El Salvador	AECID	8,320,000.00	Transport and storage	Technical Assistance
LAIF	2012	284396	Production and publication of the 2010-2011 Latin America Investment Facility (LAIF) Operational Report	N/A	N/A	42215,29	Unallocated / unspecified	other
LAIF	2012	287788	KfW - IFI remuneration for project "Extension of the hydro-power plant '5 de noviembre' en El Salvador"	El Salvador	KfW	200,000.00	Energy generation and supply	other

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
LAIF	2012	308570	LAIF Contribution to the ECOCASA Programme	Mexico	KfW	7,220,000.00	General environmental protection	Investment Grant
LAIF	2012	308865	LAIF contribution to the Facility for Performance Based Climate Finance in Latin America ('PBC Facility')	Regional-LAIF	KfW	10,080,000.00	General environmental protection	Mix
LAIF	2012	308868	LAIF contribution to the Facility for Performance Based Climate Finance in Latin America ('PBC Facility')	Regional-LAIF	KfW	200,000.00	General environmental protection	other
LAIF	2012	308960	LAIF Contribution to Phase 1 of the Integrated Sector Programme for Human Water and Sanitation in Nicaragua: Improvement of Drinking Water Supply and Sanitation System in 19 Cities" ('Phase 1 of the LIFE Programme)	Nicaragua	AECID	50,750,000.00	Water and sanitation	Mix
LAIF	2012	310790	Water and Wastewater Investment Programme , LAIF,KfW	Regional-LAIF	KfW	4,160,000.00	Water and sanitation	Technical Assistance
LAIF	2013	319515	LAIF contribution to the Project "Promoting climate change adaptation and integrated water resources management investment in the water and sanitation sector in Latin America in the framework of the Spanish Cooperation Fund for Water and Sanitation"	Regional-LAIF	AECID	15,300,000.00	Water and sanitation	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
LAIF	2013	322600	LAIF contribution to the project "Towards a sustainable development of cities and regions in Colombia"	Colombia	AFD	5,200,000.00	Other multisector	Technical Assistance
LAIF	2013	328486	"Support to the Integrated Water Resources Management (IWRM) in Colombia"	Colombia	AFD	4,650,000.00	Water and sanitation	Technical Assistance
LAIF	2013	328952	'Improving service delivery and investment planning in the power sector"	Brazil	AFD	1,605,000.00	Energy generation and supply	Technical Assistance
LAIF	2013	331670	"Entrepreneurial Development and Promotion of micro, small and medium-sized enterprises (MSME) in Central America"	Regional-LAIF	KfW	3,952,000.00	Industry	Technical Assistance
LAIF	2013	333295	Expansion and improvement of water supply, sewage, wastewater treatment and reuse systems in Lima Metropolitan Area	Peru	KfW	3,150,000.00	Water and sanitation	Technical Assistance
LAIF	2013	333437	Urban Public Transportation Improvement Program	Regional-LAIF	KfW	3,150,000.00	Transport and storage	Technical Assistance
LAIF	2013	335638	LAIF: Chilean Solar Energy Programme	Chile	KfW	15,300,000.00	Energy generation and supply	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
LAIF	2014	340914	Production of the Latin American Investment Facility (LAIF) and the Caribbean Investment Facility (CIF) Annual Operational Report 2013 and 2014	N/A	N/A	70,550.00	Unallocated / unspecified	other
LAIF	2014	340921	"Combating climate change in agriculture programme (Mex-3CAP)"	Mexico	AFD	5,200,000.00	Agriculture	Mix
LAIF	2014	351604	LAIF contribution to the construction of the 500 kV Yacyretá - Villa Hayes transmission line, loss reduction and access to energy project	Paraguay	EIB	10,000,000.00	Energy generation and supply	Investment Grant
LAIF	2014	353596	LAIF contribution to the project 'Carretera F-21 Tramo Uyuni -Tupiza'	Bolivia	EIB	7,945,000.00	Transport and storage	Investment Grant
LAIF	2014	353626	LAIF contribution to the "Geothermal Development Facility Latin America" Programme	Regional-LAIF	KfW	5,200,000.00	Energy generation and supply	Technical Assistance
LAIF	2014	354972	Water Sector Development Programme 2014-2018" in Mexico	Mexico	AFD	9,320,000.00	Water and sanitation	Mix
NIF	2008	164720	EBRD-01 Technical Assistance Support for Ukrainian Municipalities	Ukraine	EBRD	5,000,000.00	Other social infrastructure and services	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2008	170804	MD-01 Capacity assessment and modernisation of the Republican Clinical Hospital (RCH) project in Chisinau	Moldova	CEB	3,000,000.00	Health	Mix
NIF	2008	170816	MD-02 Moldova Road Rehabilitation project	Moldova	EBRD	12,000,000.00	Transport and storage	Investment Grant
NIF	2008	171449	TN-01 Extension et réhabilitation des stations d'épuration et des stations de pompage (STEP)	Tunisia	KfW	8,000,000.00	Water and sanitation	Investment Grant
NIF	2008	171478	EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	Egypt, Arab Rep.	KfW	5,000,000.00	Water and sanitation	Investment Grant
NIF	2008	171501	EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	Egypt, Arab Rep.	KfW	10,000,000.00	Energy generation and supply	Investment Grant
NIF	2008	172059	KfW-01 Black Sea Energy Transmission System project	Georgia	KfW	8,000,000.00	Energy generation and supply	Technical Assistance
NIF	2008	172064	KfW-02 Feasibility Study for a Solar Thermal Power Plant in Tunisia	Tunisia	KfW	929806,96	Energy generation and supply	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2008	172250	MA-01 Deuxième programme national de routes rurales (PNRR2)	Morocco	EIB	9,800,000.00	Transport and storage	Mix
NIF	2009	204187	EBRD-02 Technical Assistance to the Chisinau Airport Modernisation Project II	Moldova	EBRD	1,750,000.00	Transport and storage	Technical Assistance
NIF	2009	204698	EBRD-03 Ukrenergo Corporate Sustainable Development	Ukraine	EBRD	786137,32	Energy generation and supply	Technical Assistance
NIF	2009	211504	EBRD-04 Framework for Capacity Building to support Financial Intermediaries in Azerbaijan and Georgia	Regional-NIF	EBRD	3,030,000.00	Industry	Technical Assistance
NIF	2009	215326	EBRD- 05 Regional Energy Efficiency Programme for Corporate sector	Regional-NIF	EBRD	2,140,000.00	Energy generation and supply	Technical Assistance
NIF	2009	217574	EBRD-06 Feasibility Study for the Improvement of Water and Sanitation Systems in Chisinau	Moldova	EBRD	3,150,000.00	Water and sanitation	Technical Assistance
NIF	2009	224428	TN-02 Réalisation du Réseau Ferroviaire Rapide de Tunis (RFR – tronçons prioritaires)	Tunisia	AFD	28,000,000.00	Transport and storage	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2009	225944	MA-03 Programme de développement intégré durable des transports urbains de Rabat et Salé : réalisation du réseau de tramway	Morocco	AFD	8,000,000.00	Transport and storage	Mix
NIF	2009	226111	MA-02 Programme de soutien au secteur éducatif marocain	Morocco	AFD	15,000,000.00	Education	Mix
NIF	2009	226898	EBRD - 07 Ukraine Power Transmission Network Reinforcement Project	Ukraine	EBRD	8,003,100.00	Energy generation and supply	Technical Assistance
NIF	2009	228707	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	Regional-NIF	KfW	5,100,000.00	Banking and financial services	Risk capital
NIF	2010	240491	EBRD-08 Technical Assistance for Hydropower Rehabilitation Project in Ukraine	Ukraine	EBRD	3,750,000.00	Energy generation and supply	Technical Assistance
NIF	2010	244559	EIB-01 Technical Assistance for Kesrwan Water and Wastewater Project	Lebanon	EIB	4,160,000.00	Water and sanitation	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2010	247125	AFD-01 Lead IFI remuneration for project "RFR"	Tunisia	AFD	560,000.00	Transport and storage	other
NIF	2010	247956	AM-01 Yerevan Metro Rehabilitation	Armenia	EBRD	5,000,000.00	Transport and storage	Investment Grant
NIF	2010	247998	EIB-02 Lead IFI remuneration for project "PNRR2"	Morocco	EIB	232,000.00	Transport and storage	other
NIF	2010	248063	EBRD-09 Lead IFI remuneration for project "Yerevan Metro Rehabilitation"	Armenia	EBRD	200,000.00	Transport and storage	other
NIF	2010	248139	AFD-02 Lead IFI remuneration for project "programme de soutien au secteur éducatif marocain"	Morocco	AFD	400,000.00	Education	other
NIF	2010	248295	KfW-02 Feasibility Study for a Solar Thermal Power Plant in Tunisia - Amendment n°1 for fees	Tunisia	KfW	70,000.00	Energy generation and supply	other
NIF	2010	248319	KfW-01 Black Sea Energy Transmission System project - Amendment n°2 for fees	Georgia	KfW	260,000.00	Energy generation and supply	other
NIF	2010	248609	EBRD-01 Technical Assistance Support for Ukrainian Municipalities- Amendment n°1 for fees	Ukraine	EBRD	200,000.00	Water and sanitation	other
NIF	2010	248927	EIB-03 Technical Assistance for the Water Infrastructure Modernisation and Development Project	Georgia	EIB	4,160,000.00	Water and sanitation	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2010	250250	CEB-01 Lead IFI remuneration for project Capacity assessment and modernisation of the Republican Clinical Hospital" in Chisinau (Republic of Moldova)	Moldova	CEB	100,000.00	Health	other
NIF	2010	251462	KfW-03 Lead IFI remuneration for project "Extension et réhabilitation des stations d'épuration et des stations de pompage (STEP)"	Tunisia	KfW	200,000.00	Water and sanitation	other
NIF	2010	252882	EG-03 Egyptian Power Transmission	Egypt, Arab Rep.	EIB	16,000,000.00	Energy generation and supply	Mix
NIF	2010	253412	GE-01 Enguri/Vardnili HPP Rehabilitation - grant	Georgia	EBRD	4,000,000.00	Energy generation and supply	Investment Grant
NIF	2010	253422	MD- 03 Chisinau Public Transport Project	Moldova	EBRD	3,000,000.00	Transport and storage	Investment Grant
NIF	2010	253430	MD-04 Water Utilities Development Programme in the Republic of Moldova	Moldova	EBRD	10,000,000.00	Water and sanitation	Investment Grant
NIF	2010	253557	AFD-03 Lead IFI remuneration for project "programme de développement intégré durable des transports urbains	Morocco	AFD	220,000.00	Transport and storage	other

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
			de Rabat et Salé : réalisation du réseau de tramway"					
NIF	2010	253736	EBRD-10- TA for Enguri/Vardnili HPP Rehabilitation	Georgia	EBRD	1,040,000.00	Energy generation and supply	Technical Assistance
NIF	2010	255191	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I	Morocco	AFD	10,000,000.00	Water and sanitation	Mix
NIF	2010	255228	AM 02 - Armenian Small Municipalities Water Project	Armenia	EBRD	7,000,000.00	Water and sanitation	Investment Grant
NIF	2010	255340	EBRD-12 Lead IFI remuneration for project "Chisinau Public Transport Project"	Moldova	EBRD	200,000.00	Transport and storage	other
NIF	2010	255366	EIB-04 SME Finance Facility - EIB window	Regional-NIF	EBRD	5,100,000.00	Industry	Mix
NIF	2010	255386	EBRD-13 SME Facility - EBRD / KfW window	Regional-NIF	EBRD	10,200,000.00	Industry	Guarantees
NIF	2010	259697	EBRD-14 Lead IFI remuneration for project "Moldova Road Rehabilitation Project - Phase II"	Moldova	EBRD	240,000.00	Transport and storage	other

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2011	255268	EBRD-11 Lead IFI remuneration for project "Water Utilities Development Programme in the Republic of Moldova"	Moldova	EBRD	200,000.00	Water and sanitation	other
NIF	2011	260659	KfW-04 Lead IFI remuneration for project "Improved Water and Wastewater Services Programme in Egypt - IWSP I "	Egypt, Arab Rep.	KfW	200,000.00	Water and sanitation	other
NIF	2011	261012	KfW-05 Lead IFI remuneration for project "200 MW Wind Farm in gulf of El Zayt"	Egypt, Arab Rep.	KfW	200,000.00	Energy generation and supply	other
NIF	2011	264848	Supporting participation of Eastern Partnership and Central Asian Cities in the Covenant of Mayors - Administrative Arrangement with the Joint Research Center	N/A	N/A	590,000.00	Energy generation and supply	other
NIF	2011	265548	MD-05 Moldova Road Rehabilitation project III	Moldova	EBRD	16,200,000.00	Transport and storage	Mix
NIF	2011	265562	KfW-06 NIF-funded components of the project of Rehabilitation of Municipal Infrastructure Facilities in Batumi – Phase III (Water supply and sewerage of Batumi and surrounding villages)	Georgia	KfW	4,200,000.00	Water and sanitation	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2011	271262	Subscription and Management in the name of KfW and for the account of the European Commission of a participation in the MENA Fund for Micro-, Small and Medium Enterprises (SANAD) as well as a contribution to the ancillary TA Facility.	Regional-NIF	KfW	10,240,000.00	Banking and financial services	Risk capital
NIF	2011	276583	EIB-05: "Feasibility Study for the Reinforcement of a Jordanian Power Transmission Corridor"	Jordan	EIB	2,350,000.00	Energy generation and supply	Technical Assistance
NIF	2011	277814	Technical Assistance for design, project implementation and support and supervision of works of the Armenian Small Municipalities Water project	Armenia	EBRD	642,000.00	Water and sanitation	Technical Assistance
NIF	2011	277873	EBRD-15: Turnaround Management and Business Advisory Services (TAM/BAS) in Egypt, Morocco and Tunisia	Regional-NIF	EBRD	5,200,000.00	Industry	Technical Assistance
NIF	2011	278255	Southern & Eastern Mediterranean Project Preparation framework to fast-start EBRD support to the region	Regional-NIF	EBRD	15,300,000.00	Industry	Technical Assistance
NIF	2011	278305	Kotayk Solid Waste Project	Armenia	EBRD	3,700,000.00	Water and sanitation	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2011	278577	NIF Project: 2nd Phase of the Moldova Sustainable Energy Efficiency Finance Facility (MoSEFF2)	Moldova	EBRD	4,700,000.00	Energy generation and supply	Mix
NIF	2011	280303	Moldovan Residential Energy Efficiency Financing Facility (MoREEFF)	Moldova	EBRD	5,200,000.00	Other social infrastructure and services	Investment Grant
NIF	2011	280350	Ouarzazate Solar Plant – First Phase	Morocco	EIB	30,000,000.00	Energy generation and supply	Investment Grant
NIF	2011	280793	Drinking Water Efficiency Programme	Morocco	KfW	7,000,000.00	Water and sanitation	Mix
NIF	2012	262441	EBRD-13 Lead IFI remuneration for project "Enguri/Vardnili HPP Rehabilitation - grant "	Georgia	EBRD	200,000.00	Energy generation and supply	other
NIF	2012	281291	Remunération à l'AFD en tant que Chef de File pour le "Programme National d'Assainissement".	Morocco	AFD	200,000.00	Water and sanitation	other
NIF	2012	292168	EBRD- Lead IFI remuneration for "Armenian Small Municipalities Water" project	Armenia	EBRD	200,000.00	Water and sanitation	other
NIF	2012	292623	GE-04 Georgia East-West Highway - Samtredia-Grigoleti-Kobuleti section	Georgia	EIB	20,000,000.00	Transport and storage	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2012	292683	Mid Term Evaluation of the Neighbourhood Investment Facility (NIF)	N/A	N/A	193,597.00	Administrative costs of donors	other
NIF	2012	299177	EBRD Lead IFI remuneration for "Moldova Road Rehabilitation project III"	Moldova	EBRD	330,000.00	Transport and storage	other
NIF	2012	301793	EIB - Lead IFI remuneration for project "Georgia East-West Highway Samtredia-Grigoleti-Kobuleti section"	Georgia	EIB	400,000.00	Transport and storage	other
NIF	2012	304716	EIB - Lead IFI remuneration for the project "Egyptian Power Transmission Project"	Egypt, Arab Rep.	EIB	320,000.00	Energy generation and supply	other
NIF	2012	306146	Cairo Metro Line 3 Phase 3	Egypt, Arab Rep.	AFD	40,000,000.00	Transport and storage	Mix
NIF	2012	307924	Production and publication of the 2012 NIF Operational Annual Report and Overview of NIF Operations 2008-2012	N/A	N/A	90,142.00	Unallocated / unspecified	other
NIF	2012	308042	Water supply and sewerage of Batumi and surrounding villages (Phase 3)	Georgia	KfW	4,700,000.00	Water and sanitation	Investment Grant
NIF	2012	308751	"Moldelectrica Power Transmission Network Rehabilitation"	Moldova	EBRD	6,000,000.00	Energy generation and supply	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2012	310137	Renforcement du réseau de transport électrique haute tension du Maroc – Schéma directeur, production et transport électrique au Maroc – Renforcement des capacités de l'ONEE.	Morocco	AFD	15,000,000.00	Energy generation and supply	Mix
NIF	2013	319728	NIF Contribution to the project 'Balti Trolleybus'	Moldova	EBRD	1,712,000.00	Other multisector	Investment Grant
NIF	2013	321953	"Implementation of EBRD Small Business Support (SBS) programmes – Enterprise Growth Programme (EGP) and Business Advisory Services (BAS) – in the Eastern Partnership (EaP) countries Phase I	Regional-NIF	EBRD	8,000,000.00	Industry	Technical Assistance
NIF	2013	324739	"SME Guarantee Facility"	Regional-NIF	EIB	24,480,000.00	Industry	Investment Grant
NIF	2013	330133	Integrated Solid Waste Management in the Southern Caucasus (Georgia, Azerbaijan, Armenia)	Regional-NIF	KfW	6,240,000.00	Water and sanitation	Technical Assistance
NIF	2013	332479	Assisting local authorities of the Eastern Partnership countries to apply to the SUDEP call for proposals	N/A	N/A	146,651.00	Other multisector	other

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2013	333088	Integrated and Sustainable Housing and Community Development Programme in Egypt- Pillar II	Egypt, Arab Rep.	EIB	15,300,000.00	Other multisector	Mix
NIF	2013	333448	IWSP II - Delegation Agreement (NIF Contribution + Renumeration)	Egypt, Arab Rep.	KfW	23,500,000.00	Other multisector	Technical Assistance
NIF	2013	334382	Lebanon Energy Efficiency	Lebanon	EIB	4,160,000.00	Other multisector	Technical Assistance
NIF	2013	334927	Green for Growth - Extension to NIF East Region	Regional-NIF	KfW	13,350,000.00	Other multisector	Mix
NIF	2013	335017	EU Southern Neighbourhood Advisory Programme for the Transport Sector	Regional-NIF	EIB	5,200,000.00	Transport and storage	Technical Assistance
NIF	2013	335052	Caucasus Sustainable Energy Finance Facility: Implementation Support	Regional-NIF	EBRD	5,300,000.00	Banking and financial services	Risk capital
NIF	2013	335122	Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points (MBBG)	Armenia	EIB	12,240,000.00	Transport and storage	Investment Grant
NIF	2013	335135	Integrated and Sustainable Housing and Community Development Programme in Egypt - Pilar I	Egypt, Arab Rep.	AFD	18,800,000.00	Other multisector	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2013	335305	SEMED Regional Sustainable Energy Finance Facility : Phase 1 – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	Regional-NIF	EBRD	16,830,000.00	Energy generation and supply	Investment Grant
NIF	2013	335420	Communal Infrastructure Program (CIP)	Armenia	KfW	15,390,000.00	Water and sanitation	Mix
NIF	2013	335432	Water Infrastructure Modernisation – Phase II	Georgia	EIB	8,000,000.00	Water and sanitation	Investment Grant
NIF	2013	335470	L'Accord de Mise en Oeuvre du Programme d'Amélioration des Performances dans l'Alimentation en Eau Potable, Phase II - Rémuneration à la KfW en tant que Chef de File	Morocco	KfW	200,000.00	Water and sanitation	other
NIF	2013	336186	Implementation Agreement - Cairo Metro Line 3 Phase 3(Remuneration)	Egypt, Arab Rep.	AFD	500,000.00	Other multisector	other
NIF	2014	333825	Renewable Energy and Energy Efficiency Project Preparation Initiative in support of the Mediterranean Solar Plan (MSP-PPI)	Regional-NIF	EIB	5,200,000.00	Energy generation and supply	Technical Assistance
NIF	2014	334371	Fostering EU-policy implementation through PPP Project Preparation "MED 5P Initiative" (Southern Neighbourhood)	Regional-NIF	EIB	5,200,000.00	Other multisector	Technical Assistance

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2014	336049	Kesrwan Wastewater project	Lebanon	EIB	6,000,000.00	Water and sanitation	Investment Grant
NIF	2014	343335	Sustainable Credit Facility in Jordan	Jordan	AFD	1,605,000.00	Banking and financial services	Investment Grant
NIF	2014	344354	Sustainable Urban Development Projects (SUDeP) - Support Mechanism	N/A	N/A	4,179,850.00	Other multisector	other
NIF	2014	346007	Accord de MIse en Oeuvre pour le Programme de Renforcement de Réseau haute et Moyenne Tension au Maroc - Phase III.	Morocco	AFD	340,000.00	Energy generation and supply	other
NIF	2014	346783	Yerevan Metro Rehabilitation Project - Phase II	Armenia	EBRD	5,000,000.00	Transport and storage	Investment Grant
NIF	2014	346956	Yerevan Water Supply Improvement Project	Armenia	EBRD	5,500,000.00	Water and sanitation	Investment Grant
NIF	2014	348049	EIB - Lead IFI remuneration for the project "Water Infrastructure Modernisation – Phase II"	Georgia	EIB	200,000.00	Water and sanitation	other
NIF	2014	349318	DCFTA SME Direct Finance Facility	Regional-NIF	EBRD	10,220,000.00	Industry	Mix

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2014	349711	EBRD - Lead IFI remuneration for the project "MOLDELECTRICA POWER TRANSMISSION NETWORK REHABILITATION"	Moldova	EBRD	200,000.00	Energy generation and supply	other
NIF	2014	352267	"Support to the Armenia North-South Road Corridor Investment Programme, Section Yerevan to Bavra"	Armenia	EIB	12,440,000.00	Transport and storage	Mix
NIF	2014	352988	EBRD - Lead IFI remuneration for the project “Yerevan Metro Rehabilitation Project - Phase II”	Armenia	EBRD	199,700.00	Transport and storage	other
NIF	2014	353137	SUDEP Suport Mechanism	N/A	N/A	2,248,000.00	Other multisector	other
NIF	2014	353205	NOORo II - Centrale solaire à concentration cylindro-parabolique d’Ouarzazate et partie des infrastructures annexes. Convention de Délégation avec la KfW.	Morocco	EIB	40,750,000.00	Energy generation and supply	Investment Grant
NIF	2014	353786	Chisinau Water Development Programme	Moldova	EBRD	13,785,000.00	Water and sanitation	Mix
NIF	2014	353807	Moldova Roads Rehabilitation IV	Moldova	EBRD	13758349,5	Transport and storage	Investment Grant
NIF	2014	353812	Moldovan Railways Restructuring Project	Moldova	EBRD	5,200,000.00	Transport and storage	Investment Grant

Facility	Year	CRIS and ITF Contract #	Title	Country	Lead FI	Total amount from EU budget	Sector	Type of support
NIF	2014	353858	Eco-cité de Zenata	Morocco	AFD	4,160,000.00	Other multisector	Mix
NIF	2014	353950	"Integrated Depollution Programme (Lake Bizerte)"	Tunisia	EIB	8,746,000.00	Water and sanitation	Mix
NIF	2014	353967	Kafr El Shekh Wastewater Expansion (KESWE)	Egypt, Arab Rep.	EIB	15,392,600.00	Water and sanitation	Mix
NIF	2014	354655	Cairo Metro Line 3 Phase 3	Egypt, Arab Rep.	AFD	4,000,000.00	Other multisector	Mix
NIF	2014	355219	Programme éolien intégré au Maroc - Phase II	Morocco	KfW	15,300,000.00	Energy generation and supply	Investment Grant
NIF	2014	355243	Modernisation Etablissements Scolaires Tunisie	Tunisia	EIB	13,610,000.00	Education	Mix
NIF	2014	355328	Municipal Project Support Facility (MPSF)	Regional-NIF	EIB	12,300,000.00	Other multisector	Mix
NIF	2014	355423	Modernisation Etablissements Scolaires Tunisie	Tunisia	EIB	6,925,000.00	Education	Mix
NIF	2014	355439	"Integrated Depollution Programme (Lake Bizerte)"	Tunisia	EIB	6,670,000.00	Water and sanitation	Mix

Annex B2. Answers to the Evaluation Questions

This annex provides the detailed answers to each of the nine Evaluaton Questions.

For each EQ, a summary is first made of the methodology, rationale, and sources of information. Findings are then presented at the level of the EQ overall, then per Judgment Criterion, and finally per Indicator.

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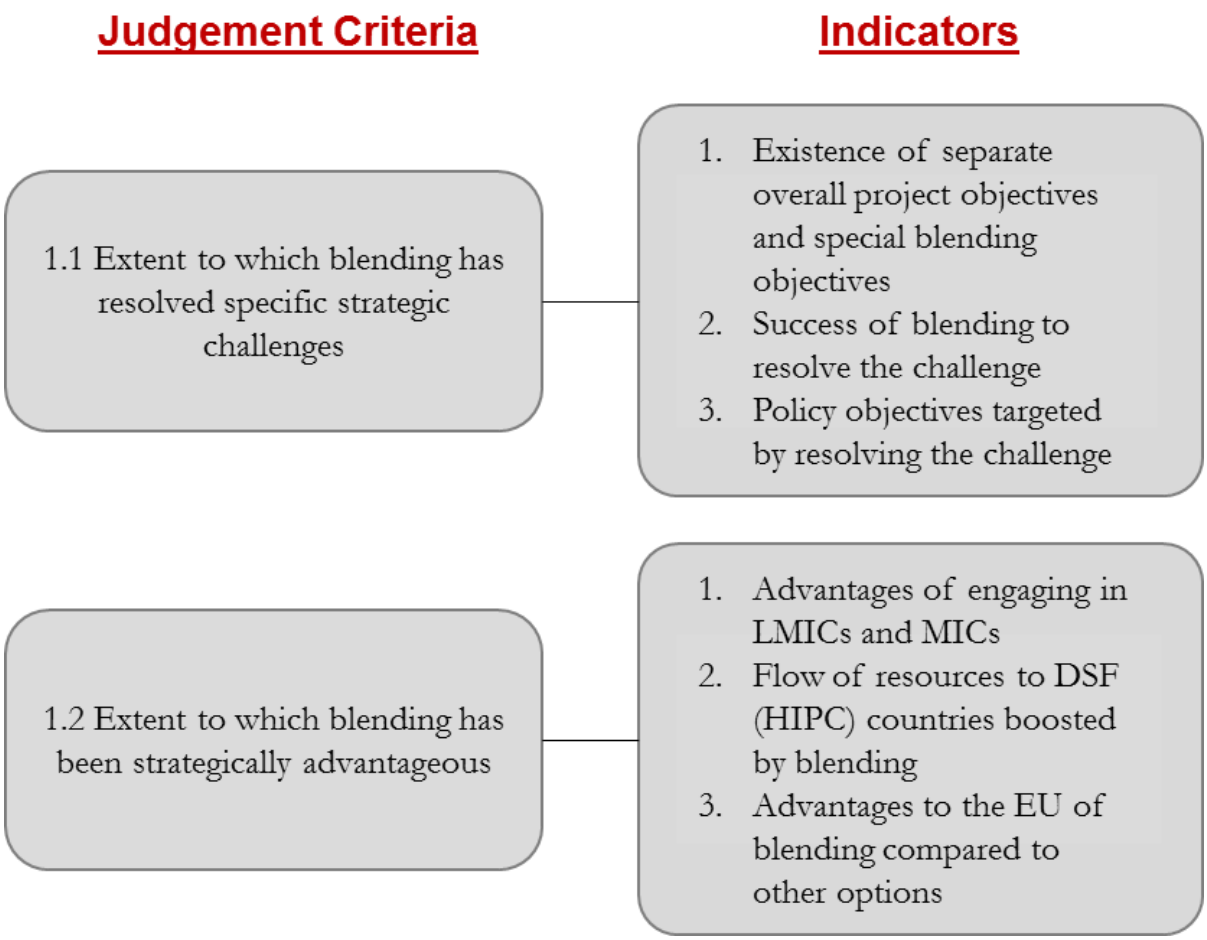
1 EQ 1: Strategic relevance

To what extent has blending been strategically relevant and valuable?



1.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

1. Assess the extent to which blending has resolved specific strategic challenges.

- Check and tabulate, for the sample of projects, whether there were separate project objectives and specific blocking obstacles that had to be resolved by blending in order for the project to go ahead at all, or to go ahead in the desirable way (e.g. be policy compliant, or involving the private sector, or others)
- Check and tabulate, for the sample of projects, whether the application of the blending grant resolved the strategic challenge
- Check and tabulate, for the sample of projects, which policy objectives were targeted by resolving the strategic challenge (e.g. involving the private sector, or boosting renewable energies, or other)

2. Assess the extent to which blending has been strategically advantageous

2.1 Check whether there are advantages of continuing to engage in LMICs and MICs in:

- Examining whether all-grant funding and other financial instruments in LMICs and MICs are restricted, or ruled-out, by EU policy
- Examining whether the number of LMICs and MICs is increasing and is expected to increase further
- Quantifying the historic and current number of middle income countries (MICs and LMICs) – including fragile states - in which EuropAid is providing development assistance
- Quantifying the EU development assistance proposed for middle-income countries and low-income countries – including fragile states - during the period 2007-2014
- Analysing the advantages to the EU of continuing to engage in the growing number of LMICs and MICS via blending (e.g. trade, policy dialogue, ability to address priority sectors e.g. energy)
- Considering the upper limits of blending as a percent of total EU development support in the current development cycle

2.2 Check whether the flow of development resources to DSF (HIPC) countries is boosted by blending:

- Quantify the number of DSF countries receiving blending finance
- Quantify the additional development finance resources (loans) obtained by these countries under the blending operations
- Assess the strategic effect through interviews

2.3 Identify the advantages to the EU of blending as compared to all-grant other financial instruments and loan-only option.

The interpretation of the above indicators enabled the team to assess whether these benefits would have been available by all-grant funding via other financial instruments or by a loan-only option.

Rationale for the EQ:

This question examines the strategic relevance of blending as a financial mechanism.

It first examines the extent to which blending has resolved specific strategic challenges that were additional to – and distinct from – overall project objectives. Such challenges usually reflected donor and beneficiary policy objectives, such as for example involving private investors in SME

finance, or responded to failures in market mechanisms (e.g. evaluation of risk, adoption of innovative technology) or addressed public goods (e.g. climate change).

It then assesses the extent to which blending has been strategically advantageous in the broader context of changes in 'demand' – the extent to which countries are becoming less poor and therefore no longer need (or can justify) grant-only finance, but are not yet wealthy enough to sustain loan-only finance i.e. the middle zone between poor and rich occupied by the LMICs and MICs. The special case of fragile states is also factored into the assessment.

Detailed sample of projects:

Beyond the general-level analysis this EQ proposes, it draws on the examination of 32 projects that took place both through documentary review and site visits in the 12 countries visited. The evaluation team took advantage of the country visits to widen the breadth of its analytical basis in factoring into the analysis 6 projects that were not part of the 46 projects selected for in-depth review during the desk phase. The 32 projects examined in depth are listed in the below table.

Table 1 - List of the projects examined in depth for EQ1

Project #	Project abbreviation	Title	Facility	Lead IFI	Year	Status as of May 2016	Total amount from EU budget M€	Type of support
Sample projects								
1	ENER/C.Intercon/NA-ZM	Caprivi Interconnector	ITF	EIB	2008	Closed	15 000 000	IRS
2	ENER/WAPP/REG	Update of the WAPP Masterplan	ITF	EIB	2009	Closed	1 306 624	TA
3	ENER/ERERA/REG	ECOWAS Electricity Regulation (ERERA)	ITF	AFD	2008	Closed	1 700 000	TA
4	TRANS/PortWalvis/NA	Expansion of Port of Walvis Bay	ITF	KfW	2009	Closed	280 612	TA
5	TRANS/MasterPlan/NA-REG	Namibian Transport Master Plan	ITF	EIB	2010	Closed	494 901	TA
9	TRANS/MetroRehab/AM	AM-01 Yerevan Metro Rehabilitation	NIF	EBRD	2010	Closed	5 000 000	Grant
10	TRANS/PublicTrans/MD	MD- 03 Chisinau Public Transport Project	NIF	EBRD	2010	Closed	3 000 000	Grant
11	WASH/IWSS/MD	EBRD-06 Feasibility Study for the Improvement of Water and Sanitation Systems in Chisinau	NIF	EBRD	2009	Closed	3 150 000	TA
12	IND/SME Facility/REG	EBRD-13 SME Facility - EBRD / KfW window	NIF	EBRD	2010	Ongoing	10 200 000	Guarantee
13	WASH/KotaykSW/AM	Kotayk Solid Waste Project	NIF	EBRD	2011	Ongoing	3 700 000	Grant
14	WASH/IWSP/EG	EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	NIF	KfW	2008	Ongoing	5 000 000	Grant
15	ENER/O.SolarPlant/MA	Ouarzazate Solar Plant – First Phase	NIF	EIB	2011	Near completion	30 000 000	Grant
19	MULTI/SustDev/CO	LAIF contribution to the project "Towards a sustainable development of cities and regions in Colombia"	LAIF	AFD	2013	Ongoing	5 200 000	TA
20	WASH/IWRM/CO	“Support to the Integrated Water Resources Management (IWRM) in Colombia”	LAIF	AFD	2013	Ongoing	4 650 000	TA
25	TRANS/Airport/MZ	Maputo International Airport	ITF	AFD	2011	Ongoing	1 600 000	TA
26	TRANS/Corridor/MZ	Beira Corridor	ITF	EIB	2008	Closed	17 828 380	IRS
27	WASH/LVWATSAN/UG	Kampala Water - LVWATSAN	ITF	KfW	2010	Near completion	8 000 000	TA
28	WASH/LVWATSAN/UG	Kampala Water - LVWATSAN	ITF	KfW	2010	Near completion	14 000 000	IRS
29	TRANS/RoadRehab/MD	MD-02 Moldova Road Rehabilitation project	NIF	EBRD	2008	Closed	12 000 000	Grant
30	WASH/PNA-ONEP/MA	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I	NIF	AFD	2010	Ongoing	10 000 000	TA/Grant
31	ENER/PowerTrans/EG	EG-03 Egyptian Power Transmission	NIF	EIB	2010	Ongoing	16 000 000	TA/Grant
32	ENER/Wind Farm/EG	EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	NIF	KfW	2008	Ongoing	10 000 000	Grant
33	WASH/SMWP/AM	AM 02 - Armenian Small Municipalities Water Project	NIF	EBRD	2010	Near completion	7 000 000	Grant
35	ENER/SEFF/MA-JO	SEMED Regional Sustainable Energy Finance Facility : Phase 1 – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	NIF	EBRD	2013	Ongoing	16 830 000	Grant
36	BANK/EFSE/MC	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	NIF	KfW	2009	Ongoing	5 100 000	RC
41	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	2009	Closed	2 000 000	TA
42	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	2009	Closed	6 600 000	IRS
43	ENER/Env.Credit lines/REG	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	ITF	AFD	2013	Ongoing	2 100 000	TA
44	ENER/Env.Credit lines/REG	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	ITF	AFD	2010	Closed	2 000 000	TA
Non sample projects								
47	ENER/PowerRehab/BE-TO	Benin - Togo Power Rehabilitation	ITF	EIB	2009	Near completion	12 250 000	IRS
N/A	Georgia Batumi Water	Water supply and sewerage of Batumi and surrounding villages	NIF	KfW	2010	Ongoing	4 700 000	IG
N/A	Georgia Power transmission	Black Sea Energy Transmission System project (BSPT)	NIF	KfW	2008	Ongoing	8 260 000	TA
N/A	Georgia Enguri Hydro	Enguri/Vardnili HPP Rehabilitation (EHPP)	NIF	EBRD	2010	Closed	5 240 000	TA
N/A	Kenya Lake Turkhana Wind	Kenya Lake Turkhana Wind Power	ITF	EIB	2006	Ongoing	25 000 000	N/A
N/A	Benin Atlantic project	Access to Electricity in the Atlantique Province in Benin	ITF	AFD	2013	Ongoing	20 000 000	IG

1.2 Evaluation question

Summary

- Blending projects were generally focused on specific (policy) challenges that required grant financing to be blended into the loan package. These challenges encompass different areas that are suitable for the use of a grant: for example technology innovation, millennium development goals, public goods and private sector finance in risky environments.
- Blending responded in various ways to the underlying reasons related to the special challenges.
- Blending has often been successful in resolving the specific challenge it was used for.
- Blending has enabled the EU to target key policy objectives and reforms.
- Blending has enabled the EU to continue its engagement with middle-income countries, which otherwise would become (increasingly) difficult given the changing worldwide economic environment and donor policy trends.
- Blending has also been a way to boost the flow of development resources to Poverty Reduction and Growth Trust-eligible- low-income countries in critical needs of development aid, including fragile states.
- Blending has often offered advantages compared to alternative financing options, be they all-grant or all-loan.

Blending projects were generally focused on specific (policy) challenges whose achievement required grant financing to be blended into the loan package. The close review of 32 blending projects shows that beyond the overall objectives of the projects, each project faced a 'specific challenge' that needed to be overcome by mixing grant money into the loan-financing package. These challenges are linked to weaknesses in market mechanisms and, in some cases, in the ability of the state to provide public goods. These weaknesses block action by private and public sector actors to carry out projects that are otherwise economically feasible and in their interests. They encompass different areas that are suitable for the use of a grant: for example technology innovation, a poverty and millennium development goal focus, public goods and private sector finance in risky environments. During the period under review, blending has often been used to finance MDG-compatible projects and projects targeting public goods that cover a wide array of sectors: transport infrastructure, water and wastewater treatment, environment, and other MDG-compatible projects. These MDG projects tend to have low viability because the social and pro-poor dimensions add non-viable components to the projects while it is usually not practical to charge for public goods for collection-related and affordability reasons. Moreover, blending was also used to finance renewable energy projects which are an example of where the policy objective – renewable energy – is at odds with the least-cost approach because the new technology is not (yet) able to compete with the lowest costs of production available from old technology. Finally, blending was used to finance PSD-related projects that aimed to bring in private funding to finance SMEs in risky environments. These challenges required a grant to be added to the project finance package in order to achieve financial viability and reduce risk. The below table provides examples for 6 of the visited projects. The full table covering all 32 visited projects is included in the indicator analysis section.

Table 2 - Project objectives and specific challenge for blending to solve for 6 of the visited projects

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument] [TA: technical assistance IG: investment grant IRS: investment rate subsidy]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
ENER/ERERA/REG #3	To foster regional integration in the energy sector in West Africa	To establish the missing element for regional energy integration: a well-functioning regional regulatory authority (ERERA) [TA]	B
TRANS/MetroRehab/AM #9	To improve mass transport in the capital	To commercialise and modernise management of the metro [IG]	B
IND/SME Facility/REG #12	To finance SMEs	To encourage financial intermediaries to boost their lending to SMEs [TA/Loan guarantee]	A
WASH/KotaykSW/ AM #13	To improve management and disposal of waste	To encourage EU standards for waste management [IG]	B
ENER/O.SolarPlant/MA #15	To generate renewable energy	To overcome a tariff issue [IG]	A
TRANS/Corridor/MZ #26	To fulfil traffic demands of Mozambique and neighbouring countries and contribute to wider socio-economic development	To inject a commercial dimension [IRS]	A

Blending responded in various ways to the underlying reasons related to the special challenges. The different blending instruments allowed for a varied response where projects could make use of and where relevant combine technical assistance, technology transfer, capacity development, policy and institutional reforms with direct investment subsidy and reduction of risk. Examples of how blending instruments have been used to address the underlying reasons for the special challenges are detailed in the below table (See also Table 3 on Special Challenges in Annex 1):

Table 3 - How the blending grant was used to address the special challenges?

Area	Using the grant to …	Examples
Information	**… improve the information environment so that private sector investors make the right decisions**	In Moldova (BANK/EFSE/MC #36), financial literacy was provided as part of the blending project so that SMEs and individuals were able to take the right decisions and properly prepare investment proposals that would benefit them

Area	Using the grant to …	Examples
Risk	**… change the perception of risk so that investors are encouraged to invest in productive and not just speculative investments**	In Eastern and Southern Europe, the SMEFF (IND/SME/Reg #12), by providing a partial credit guarantee, has increased the willingness of the financial intermediaries to lend to more risky clients
Capacity	**… introduce and develop capacity to make use of new technology**	In Morocco, the grant, partly used to finance the Moroccan Agency for Solar Energy's (MASEN) minority equity participation in the Solar Project Company, was key for MASEN to progressively gain experience in the renewable energy area (ENER/O.SolarPlant/MA #15)
Reforms	**… cover part of the political cost of difficult reforms**	In Egypt, IWSP investments made the idea of a water tariff increase more acceptable in light of the tangible improvements to water and wastewater services in rural areas (WASH/IWSP/EG #14).
Social disparities	**… make the market reach marginalised population groups**	For the ongoing Togo-Benin power project (Benin Atlantic project), the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity.
Positive externalities	**… ensure economically feasible projects with high environmental and social benefits go ahead even if financially not feasible**	In Uganda, the IRS enabled a scaling up to about 4-5 times previous water project sizes by borrowing (Kampala Water – WASH/LVWATSAN/UG #27-28). The investment – which focused on the provision of quality potable water to all of Kampala including areas where the poor live - was beyond what could be funded by either all-grant funding or loan alone.
Global public goods	**… provide and encourage contribution to global public goods**	Climate change with the Concentrated Solar Power plant in Morocco (Noor I) and the Egypt Wind Farm (ENER/O.SolarPlant/MA #15).

Blending has often been successful in resolving the specific challenge it was used for. The close review of the 32 projects examined shows that blending was able to resolve the 'specific challenge' and allow the project go ahead in 78% of the cases (25 cases out of 32). In other words, the grant could often make a difference and assist in the transition to normal market mechanisms and/or enable the public sector to more effectively provide for public goods. When blending succeeded in resolving the specific challenge it was used for, adding a grant helped i) to co-finance the rehabilitation and/or extension of public infrastructure, including basic ones; ii) to modernise the management of public utilities, notably in the water and sanitation sector; iii) to realise key pre-investment studies; iv) to overcome a tariff issue; v) to mobilise private sector funding, for instance for energy efficiency and renewable energy investments, and/or vi) to facilitate public policy implementation (see below table). When blending only partly succeeded or failed to resolve the specific challenge it was used for, it was largely due to insufficient anticipation of risks and/or thorough understanding of the country context; or project design deficiencies and ineffectual monitoring (case of the Beira corridor).

Table 4 – Unblocking specific challenges with blending: what did it entail in practice?

Adding a grant helped to ….	Illustrative examples
Co-finance the rehabilitation and/or extension of public infrastructure	▪ Extension and development of the Port of Pointe Noire infrastructure (TRANS/PAPN/CG #41-42) ▪ Rehabilitation and extension of sanitation services in 30 urban centres in Morocco (WASH/PNA-ONEP/MA #30) ▪ Modernization of the trolleybus fleet in Chisinau (TRANS/PublicTrans/MD #10) ▪ Rehabilitation of the transnational backbone electric network infrastructure in Benin and Togo (Benin-Togo Power Rehabilitation project LCO component)
Modernise the management of public utilities	▪ The IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff. In parallel, the TA aimed to improve the management and performance of the utilities because it was recognised that poor performance was not only an investment issue but also a management one (WASH/IWSP/EG #14) ▪ The use of part loan funding enabled the project to be much larger (4-5 times) than previous WATSAN projects in Uganda. Furthermore, an innovative 'water supply chain' design and management approach was introduced from the catchment area to final disposal of treated waste water in Lake Victoria was introduced through TA. The larger project size and special approach enabled all areas of municipal Kampala to be covered – and about 16 out of 21 are estimated to be poor areas (WASH/LVWATSAN/UG #27-28)
Realise key pre-investment studies	▪ for the development of the Western African energy market (ENER/WAPP/REG #2) ▪ for the viable expansion of Port Walvis in Namibia (TRANS/PortWalvis/NA #4) ▪ for supporting sustainable urban development in Colombia (MULTI/SustDev/CO #19) ▪ for the improvement of water and Sanitation Systems in Chisinau (WASH/IWSS/MD #11)
Overcome a tariff issue	▪ For Noor I, the grant enabled to overcome a tariff issue by reducing by 30% the electricity production costs resulting from the solar technology and unblocked a massive renewable energy project (ENER/O.SolarPlant/MA #15) ▪ For the El Zayt wind farm, the 8% investment grant (although low) brought the price of energy close to the price of conventional generation. The project created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector (ENER/Wind Farm/EG #32)
Mobilise private sector funding	▪ The EFSE project design used the risk capital grant to invest in first-loss shares and thus mobilise private resources for SME finance in risky environments. (BANK/EFSE/MC #36) ▪ Grants were used to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions and leasing companies to finance SMEs, which hitherto they had avoided. (IND/SME Facility/REG #12)
Facilitate public policy implementation	▪ In Colombia, the grant is being used to finance the pilot project of Lake Tota, which enabled the implementation of public policies at local level that remained rather poor until now (WASH/IWRM/CO #20)

Blending generally contributed to target key policy objectives and reforms. These policy objectives covered multiple sectors in half of the cases reviewed. Blending projects often addressed national/regional policy objectives that were strategic to the recipient countries. These policy objectives covered diverse areas (economic development, social infrastructure, regional integration, green energy, conflict resolution, private sector development, etc.) and could hit more than one policy objective. For instance, the modernisation of the trolleybus fleet in Moldova supported by blending (TRANS/PublicTrans/MD #10) enabled a focus on the improvement of public transport in the capital in line with the Municipal Public Transport Strategy (e.g. by introducing an improved ticketing) as well as the reduction of greenhouse gas emissions. In this case, the scale of the blending project where the grant element promised an affordable and comprehensive solution to the persistent problems in public transport in the capital city was sufficiently politically attractive to bring about a decision to increase productivity and adopt modern management.

Blending has enabled the EU to continue its engagement with middle-income countries, which otherwise would become (increasingly) difficult given the changing worldwide economic environment and donor policy trends.

1° With the significant reduction of low-income countries and increase of upper middle-income countries since 2000, grant-only financing opportunities have been shrinking. According to World Bank data, the number of low-income countries - where (all-) grant financing of development projects is generally justified - has been halved between 2000 and 2014 from 58 to 28. Conversely, the number of upper middle-income countries (UMICs) has increased from 36 in 2000 to 50 in 2014, while the number of lower middle-income countries (LMICs) remained stable. In addition, the increase in the WB threshold levels over time imply that LICs were better off – as far as income levels are concerned - in 2014 than in 2000. Finally, according to a study by Reisen and Garraway, these trends are expected to continue with the number of LICs being projected to shrink to 20 by 2025.

2° Under the impulse of the Agenda for Change reform drive, EU policies tended to restrict all-grant financing with more advanced developing countries (therefore including middle-income countries) over time. This also mirrors the general trend of donor policies with respect to middle-income countries. Since the early 2000s, donors (including the EU) have been increasingly concerned with meeting specific developmental objectives (and allocating grant aid to the countries most in need and where they can demonstrate maximum impact). This progressively made it difficult to justify all-grant funding in the growing group of middle-income countries. Some donors decided to continue focusing on the middle-income countries but opted for a reduction of grant allocation to these countries and searched for a new model to provide grant to these countries. The EU supported this approach with its 2011 Agenda for Change leading, amongst others, to a reduction of grant-based aid to more advanced developing countries. The Commission then adopted in 2014 its aid differentiation policy to recalibrate its development cooperation with middle-income countries. Upper middle-income countries (UMICs) are set to 'graduate' out of the Development Cooperation Instrument (DCI) but remain eligible for grant finance under other instruments while middle-income countries benefiting from the European Development Fund (EDF) will see reduced aid levels through 2020.

3° Both EU overall assistance and EU blending finance reflected these policy trends. The bulk of EU assistance benefited both low-income countries and lower middle-income countries that represented altogether 76% of total EU assistance in 2007 and 69% in 2014. EU assistance to LMICs represented the bulk of EU development assistance efforts, with 40% of the assistance being directed to LMICs in 2007 and 47% in 2014. Furthermore, EU assistance to MICs has more than doubled, from €2,4 billion to €5,23 billion. EU assistance to LICs remained relatively stable between 2007 and 2014 at around €1,4 billion while the number of LICs decreased from 39 to 31.

EU assistance to fragile states rose between 2007 and 2014, from €1,5 billion to €2,6 billion, representing respectively 27% and 36% of total development EU assistance (while the number of fragile states countries remained stable as per WB list of fragile states). Blending has been mostly allocated to lower middle-income countries, with two thirds of EU blending resources[1] (68% or €756m) benefiting this group – mostly provided by the NIF. Blending also benefited nine countries classified at least once as fragile states by the World Bank during the 2007-2014 period[2]. The grants provided to these countries (€111m) represented 0,2% of total EU assistance during the period 2007-2014. Moreover, in some of the neighbourhood countries visited during the evaluation, there was evidence that blending supported the transition from all-grant funding to all-loan funding (Egypt, Georgia).

4° Continuing to engage in MICs via blending is a way for the EU to address complex global public goods challenges as well as the MDGs objectives, and especially to focus on poverty reduction. Within a changing poverty landscape – with a substantial portion of the world's poor living nowadays in MICs -, focusing EU cooperation on MICs is a way to continue to target support to the poor in those countries. Secondly, enhancing the development of MICs is a way of preventing them from falling back to LICs. Thirdly, a differentiated support through blending is a way to reinforce the significant spill over effects MICs have on nearby countries. Lastly, MICs can make a crucial contribution to global public goods such as climate change that ultimately depend on the development paths of both developing and emerging countries.

Blending has also been a way to boost the flow of development resources to PRGT-eligible low-income countries in critical needs of development aid, including fragile states. EU blending finance targeted Poverty Reduction and Growth Trust (PRGT[3])-eligible countries, which received 26% (or € 0,46 billion)[4] of total EU grants provided during the period 2007-2014. The total amount of blending loans contracted by these 24 countries is 5.7 billion euros or 14%[5] of the total amounts of loans of all blending operations included in the inventory. This is the closest approximate of the additional development finance resources these countries benefited from in the sense that the loan figure also includes the grants provided by other donors and recipient governments (for mixed-grants projects) and shouldn't therefore be understood as being loan-only. Not all PRGT-eligible countries are low-income countries. Blending put emphasis on low-income countries within the group of PRGT-eligible countries, with around 40% of these countries[6] benefiting from blending operations. The EU prioritized PRGT-eligible LICs with 'low' and 'moderate' risks of debt distress for its blending operations. The 16 LICs[7] that benefited from EU blending loans received a total of €3.9 billion during the 2007-2014 period. As above, this figure is an approximate of the additional development finance resources these countries could access to. For the six LICs that are classified as fragile states[8] and that benefited from blending operations, the total amount of loans contracted equaled €1 billion[9].

1 The total corresponds to the grants awarded to blending projects implemented in one country only and equals €1,1 billion.

2 For instance Liberia has been classified as fragile states throughout the period except for 2010 while Mali has only been recently classified by the WB as fragile state (in 2014).

3 In order to help low-income countries with their debt management, the World Bank (WB) and the International Monetary Fund (IMF) introduced in 2005 the Debt Sustainability Framework (DSF). All the countries under a DSF are eligible to the Poverty Reduction and Growth Trust (PRGT), which is the IMF's concessional lending vehicle.

4 See below table

5 See below table

6 As classified in 2007 and 2014 by the IMF

7 LICs as per the 2007 WB classification

8 As per 2007 WB classification

9 See Indicator analysis for the tables presenting the full data set

Table 5 - EU blending finance provided to countries under IMF conditions

	Countries under IMF conditions receiving blending finance	LICs (2007)	EU blending grants	Total blending project loans
	Bangladesh	1	€14 128 000	€932 100 000
	Benin	1	€20 000 000	€33 000 000
	Bolivia		€7 945 000	€116 200 000
	Cambodia	1	€6 288 000	€90 200 000
	Cameroon		€6 900 000	€54 300 000
	Dominica		€2 140 000	€6 500 000
	Ethiopia	1	€7 500 000	€10 900 000
	Guyana		€30 050 000	€60 100 000
	Kenya	1	€50 000 000	€875 100 000
	Kyrgyz Republic	1	€17 488 400	€51 720 000
	Liberia	1	€14 800 000	€287 940 000
	Mali	1	€1 000 000	€249 000 000
	Mauritania		€1 626 791	€20 073 209
	Moldova		€100 725 350	€902 220 000
	Nepal	1	€2 407 500	€60 000 000
	Nicaragua		€57 750 000	€561 100 000
	Niger	1	€11 000 000	€19 000 000
	Sierra Leone	1	€2 500 000	€376 404 000
	Tajikistan	1	€14 400 000	€36 000 000
	Tanzania	1	€17 700 000	€86 800 000
	Uganda	1	€29 600 000	€471 400 000
	Uzbekistan	1	€8 248 000	€28 600 000
	Vietnam		€5 200 000	€51 000 000
	Zambia	1	€23 750 000	€314 250 000
Total		**24**	**16**	**€453 147 040**	**€5 693 907 209**
% in all countries receiving blending		**52,2%**	**34,8%**		
% in total EU blending grants				**26,4%**	
% in total project loans					**14,4%**

Source: ADE calculations on the basis of the inventory of blending projects (2007-2014) and on the basis of IMF and WB classifications

Blending has often offered advantages compared to alternative financing options, be they all-loan or all-grant. This evaluation shows, further to a close review of 32 projects, that in most cases examined (25 out of 32), there was insufficient financial capacity to resolve the problems with all loan financing. In those cases, key informants considered a loan-only option as not being possible and underlined that blending enabled: to meet the IMF concessionality requirement; to compensate for the low borrowing capacity of the beneficiary country or borrower; to compensate for the insufficient financial return of specific loss-making or innovative activities that have innovative public good features; and/or to promote the development of unstructured and unattractive market segments having the potential for positive externalities. Furthermore, blending has offered advantages compared to all-grant options. It enabled the EU to support major infrastructure that it would otherwise not have been able to finance: with the €1.7 billion provided as grants for blending, economic development projects worth almost €40 billion have been implemented. Without blending the EU could not have engaged at scale because these projects would have absorbed a huge proportion of the EU development assistance. The qualitative and quantitative assessments made throughout the analysis of this question also show that blending enabled to resolve 'specific challenges', to engage in a growing number of MICs and to boost financial resources for LICs, including fragile states.

1.3 Judgement Criteria

Methodological note on JC1.1 and I-1.2.3:
This JC and Indicator notably draw on the findings presented in the country notes that synthesise the results of data triangulation and analysis (documents and interviews) and in the 'Special Challenge' table (see Annex 1 to this EQ) compiled by the team throughout this evaluation. Complementary analytical tables, namely Tables 7 (Unblocking specific challenges with blending: what did it entail in practice), 8 (How the blending grant was used to address the special challenges) and 9 (Blending vs all-loan or all-grant financing: what are the pros of blending?) present further analysis based on the 'Special Challenge' table and on the country notes.

JC 1.1 Extent to which blending resolved strategic challenges

Summary JC 1.1 Blending has resolved strategic challenges

- **Blending projects have addressed specific challenges that required blending grants to be solved in slightly more than half of the cases**
- **The specific challenges to be solved have encompassed different areas that are suitable for the use of a grant: for example technology innovation, millennium development goals objectives, public goods and private sector finance in risky environments**
- **Blending has often been successful in resolving the specific challenge it was used for**
- **Blending responded in various ways to the underlying reasons related to the special challenges**
- **Blending has been a way to target key policy objectives, that covered multiple sectors in half of the cases reviewed**

Blending projects have addressed specific challenges that required blending grants to be solved in slightly more than half of the cases (I-1.1.1). Blending projects are well justified where they respond to a challenge that the project faces and that needs to be overcome by mixing grant money into the package. The close review by the team of 32 projects through both documentary review and site visits shows that beyond the overall objectives of the projects, the projects all aimed to tackle a 'specific challenge'. In slightly more than half of the cases (53% or 17 out of 32 cases), the team found strong justification that non-concessional loan would not have been possible due to blocking or other factors. It means that the projects examined displayed a particular challenge that needed a grant to be achieved in a majority of the cases reviewed. In 38% of the cases examined (12 out of 32), the evidence was indicative but not conclusive: the grant was found to be justified but there was still doubt on the extent to which the project really required a grant to materialize. Finally, in one of the cases examined (TRANS/PAPN/CG #41-42 – IRS), the case for a grant was not clear since the interviewees met indicated that other possibilities for loans at better conditions were available at the time to the beneficiary. The below table gives some examples while the full list of projects examined is included in the Indicator analysis section.

Sources of information: Project fiches/Application forms; EU Agreements; interviews in headquarters with IFIs; interviews in the field with IFIs, EUD and beneficiaries.
Quality of evidence: More than satisfactory (the application form often provided explicit or implicit information on the 'blocking' challenge the grant was used for. The team then triangulated this information through a range of interviews in headquarters and in the field, in particular with national partners who were systematically asked to explain how much a grant was needed to finance the project).

The specific challenges to be solved have encompassed different areas that are suitable for the use of a grant: for example technology innovation, millennium development goals objectives, public goods and private sector finance in risky environments (I-1.1.1). The review of the 32 projects examined shows that the specific challenges to be resolved by blending generally include the following types of challenges:

- Technology innovation. Blending has been used to finance a few renewable energy projects which are the classic cases where the policy objective – renewable energy – is at odds with the least-cost approach because the new technology is not (yet) competitive with the lowest costs of production available from old technology (e.g. of thermal energy) – in some cases the old technology itself might be subsidized or not consider all the negative externalities. These projects often require a grant to be accommodated to increase financial viability. For instance, while the project objective of the Ouarzazate solar power project is to develop renewable energy, the specific challenge for blending is to eliminate a (blocking) distortion in cost of production and tariffs.
- Millennium Development Goals (MDG). Blending has been used to finance a range of MDG-compatible projects covering a wide array of sectors such as education, water, and environment. MDG objectives diminish financial viability because the social and pro-poor dimensions add non-viable components to development projects, which reduce overall cash flow to service loans. That usually leads to the need for a grant element as these types of projects cannot sustain repayment of a loan.
- Public goods. Blending has been used to finance a wide range of projects targeting public goods. Many infrastructure-related projects fall under this category, especially transport infrastructure, waste water treatment, and environment management projects. While there are ways of charging for these public goods in theory, these are often not practical for collection-related and affordability reasons – where the public finances that should finance such public goods are constrained, grants may be needed to part-finance public goods to ensure optimal public good coverage.
- Private sector finance. Blending has been used to finance PSD-related projects that aimed to bring in private funding to finance SMEs in risky environments. For instance, while the project objective of the EFSE fund in Eastern Europe is to finance SMEs, the specific challenge for blending is to mobilise private funding for SMEs and to trigger a situation where private funding becomes confident of a competitive return on lending to SMEs and thus increase the availability of such finance for SMEs.

Sources of information: Project fiches/Application forms; EU Agreements; interviews in headquarters with IFIs; interviews in the field with IFIs, EUD and beneficiaries.
Quality of evidence: More than satisfactory (the application form detailed the area blending was used for. The team then triangulated this information through a range of interviews in headquarters and in the field, in particular with EU and IFI representatives as well as with national partners who were systematically asked to explain why and to which extent a grant was justified to finance the project).

Table 6 - Project objectives and specific challenge for blending to solve for 15 of the visited projects

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument] [TA: technical assistance IG: investment grant IRS: Investment rate subsidy]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
ENER/ERERA /REG #3	To foster regional integration in the energy sector in West Africa	To establish the missing element: a regional regulatory authority (ERERA) [TA]	B
TRANS/MetroRehab/AM #9	To improve mass transport in the capital	To commercialise and modernise management of the metro [IG]	B

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument] [TA: technical assistance IG: investment grant IRS: Investment rate subsidy]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
TRANS/PublicTrans/MD #10	To improve public transport services in the capital	To modernize the trolleybus fleet [IG]	A
WASH/IWSS/MD #11	To improve living conditions and reduce health risks for the population of the capital	To improve the provision of water and sanitation services [TA]	A
IND/SME Facility/REG #12	To finance SMEs	To incentivise financial intermediaries to enhance their lending to SMEs by risk sharing and professionalising risk management [TA/Loan guarantee]	A
WASH/KotaykSW/AM #13	To improve management and disposal of waste	To encourage EU standards for waste management [IG]	B
WASH/IWSP/EG #14	To improve water sanitation services	To improve capacity of local utilities and break the viscous circle of poor performance and poor cost recovery [TA]	A
ENER/O.Solar Plant/MA #15	To generate renewable energy	To overcome a (blocking) tariff issue [IG]	A
MULTI/SustDev/CO #19	To facilitate access to long-term financing, especially for intermediary and fragile cities	To produce pre-investment studies and institutional strengthening [TA] & investment projects [AFD and IDB loans]	B
TRANS/Corridor/MZ #26	To fulfil traffic demands of Mozambique and neighbouring countries and contribute to wider socio-economic development	To inject a commercial dimension [IRS]	A
WASH/PNA-ONEP/MA #30	To improve sanitation services and the quality of the receiving environment in Morocco	To co-finance sanitation investments [TA]	A
ENER/PowerTrans/EG #31	To increase and improve access to electricity	To ensure the project incorporated sub-stations that were in rural areas with poor supply and not among the most profitable for the utility [TA/IG]	A
ENER/Wind Farm/EG #32	To increase energy generation	To demonstrate the viability of renewable wind energy [IG]	A
WASH/SMWP/AM #33	To improve water supply and sanitation services	To commercialise and modernise management of utilities [TA/IG]	B
ENER/SEFF/MA-JO #35	To promote energy efficiency and the use of renewable energy sources	To provide incentive for the prioritisation of sustainable energy investments over other investments opportunities/needs [IG]	A

Source: Special challenge table prepared by ADE presented in Annex 1

Blending has often been successful in resolving the specific challenge it was used for (I-1.1.2). The close review of the 32 projects examined shows that blending was able to resolve the

'specific challenge' and make the project go ahead in 78% of the cases (25 cases out of 32). In the remaining cases, blending either partly succeeded (4 cases out of 32) or did not succeed (3 cases out of 32) in resolving the specific challenge. When blending succeeded in resolving the specific challenge it was used for, adding a grant helped i) to co-finance the rehabilitation and/or extension of public infrastructure, including basic ones; ii) to modernise the management of public utilities, notably in the water and sanitation sector; iii) to realise key pre-investment studies; iv) to overcome a tariff issue – for instance by reducing the electricity production costs resulting from the solar technology - to mobilise private sector funding for energy efficiency and renewable energy investments; v) to mobilise private sector funding, and vi) to facilitate public policy implementation. The table below highlights a few illustrative examples across these categories.

Table 7 – Unblocking specific challenges with blending: what did it entail in practice?

Adding a grant helped to ….	Illustrative examples
Co-finance the rehabilitation and/or extension of public infrastructure	▪ Extension and development of the Port of Pointe Noire infrastructure (TRANS/PAPN/CG #41-42) ▪ Rehabilitation and extension of sanitation services in 30 urban centres in Morocco (WASH/PNA-ONEP/MA #30) ▪ Modernization of the trolleybus fleet in Chisinau (TRANS/PublicTrans/MD #10) ▪ Rehabilitation of the transnational backbone electric network infrastructure in Benin and Togo (Benin-Togo Power Rehabilitation project LCO component)
Modernise the management of public utilities	▪ The IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff. In parallel, the TA aimed to improve the management and performance of the utilities because it was recognised that poor performance was not only an investment issue but also a management one (WASH/IWSP/EG #14) ▪ The use of part loan funding enabled the project to be much larger (4-5 times) than previous WATSAN projects in Uganda. Furthermore, an holistic approach to the entire water supply chain from the catchment area to final disposal of treated waste water in Lake Victoria was introduced through TA. The larger project size and special approach enabled all areas of municipal Kampala to be covered – and about 16 out of 21 are estimated to be poor areas (WASH/LVWATSAN/UG #27-28)
Realise key pre-investment studies	▪ for the development of the Western African energy market (ENER/WAPP/REG #2) ▪ for the viable expansion of Port Walvis in Namibia (TRANS/PortWalvis/NA #4) ▪ for supporting sustainable urban development in Colombia (MULTI/SustDev/CO #19) ▪ for the improvement of water and Sanitation Systems in Chisinau (WASH/IWSS/MD #11)
Eliminate a tariff distortion	▪ For Noor I, the grant enabled to overcome a tariff issue (by reducing by 30% the electricity production costs resulting from the solar technology) and unblocked a massive renewable energy project (ENER/O.SolarPlant/MA #15) ▪ For the El Zayt wind farm, the 8% investment grant (although low) brought the price of energy close to the price of conventional generation. The project created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector (ENER/Wind Farm/EG #32)
Mobilise private sector funding	▪ The EFSE project design used the risk capital grant to invest in first-loss shares and thus mobilise private resources for SME finance in risky environments. (BANK/EFSE/MC #36) ▪ Grants were used to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions and leasing companies to finance SMEs, which hitherto they had avoided. (IND/SME Facility/REG #12)
Facilitate public policy implementation	▪ In Colombia, the grant is being used to finance the pilot project of Lake Tota, which enabled the implementation of public policies at local level that remained rather poor until now (WASH/IWRM/CO #20)

When blending partly or did not succeed in resolving the specific challenge, it concerned public policy related challenges (ENER/ERERA/REG #3, TRANS/MasterPlan/NA-REG #5, TRANS/Airport/MZ #25), the management / capacity of public utilities (TRANS/MetroRehab/AM #9, TRANS/Corridor/MZ #26), and the co-financing of infrastructure investments (ENER/C.Intercon/NA-ZM #1, WASH/KotaykSW/AM #13). This (partial) failure to resolve the challenges can be explained by:

- An insufficient anticipation of risks and/or thorough understanding of the country context. For instance, ERERA suffers essentially from lack of political commitment from ECOWAS Member States to this regional regulatory authority and from the absence to date of an effective energy market which it would be intended to regulate. Similarly, the Integrated Transport Master Plan (ITMP) for Namibia has not been endorsed by cabinet and has to some extent been 'overtaken' by the ongoing preparation of the 'Master Plan for development of an international logistics hub for SADC countries in Namibia. Likewise, the Kotayq solid waste management project had in principle the potential to use a grant element to address an important challenge (the applicability of EU standards for landfills), but the project design did not take into account that the enabling environment in terms of strategy and stakeholder consensus was not in place.
- Project design deficiencies and ineffectual monitoring. This is the case of the Beira corridor project, which has not succeeded in injecting a commercial dimension in rail management in a post-war fragile economy because of the structure of the Concession Agreement and because of ineffectual supervision. The poor performance of this component led to negative perceptions of public-private partnerships in Mozambique (TRANS/Corridor/MZ #26).

Sources of information: Project fiches/Application forms; EU Agreements; project monitoring and final reports for the 32 projects visited in the field; interviews in headquarters with IFIs; interviews in the field with IFIs, EUD and beneficiaries.
Quality of evidence: More than satisfactory (the interviews held during the field visits allowed the team to triangulate information on the extent to which the grant helped to unblock a specific challenge. The team backed up its analysis with any relevant information on this issue in the project documentation but it generally remained scarce)

Blending responded in various ways to the underlying reasons related to the special challenges (I-1.1.2). The different blending instruments allowed for a varied response where projects could make use of and where relevant combine technical assistance, technology transfer, capacity development, policy and institutional reforms with direct investment subsidy and reduction of risk. Examples of how blending instruments have been used to address the underlying reasons for the special challenges (see Annex 1 Table on 'Special challenges') include:

Table 8 - How the blending grant was used to address the special challenges?

Area	Using the grant to …	Examples
Information	**… improve the information environment so that private sector actors make the right decisions**	In Moldova (BANK/EFSE/MC #36), financial literacy was provided as part of the blending project so that SMEs and individuals were able to take the right decisions and properly prepare investment proposals that would benefit them
Risk	**… change the perception of risk so that investors are encouraged to invest in productive and not just speculative investments**	In Eastern and Southern Europe, the SMEFF (IND/SME/Reg #12), by providing a partial credit guarantee, has increased the willingness of the financial intermediaries to lend to more risky clients

Area	Using the grant to …	Examples
Capacity	**… introduce and develop capacity to make use of new technology**	In Morocco, the grant, partly used to finance the Moroccan Agency for Solar Energy's (MASEN) minority equity participation in the Solar Project Company, was key for MASEN to progressively gain experience in the renewable energy area (ENER/O.SolarPlant/MA #15)
Reforms	**… cover part of the political cost of difficult reforms**	In Egypt, IWSP investments made the idea of a water tariff increase more acceptable in light of the tangible improvements to water and wastewater services in rural areas (WASH/IWSP/EG #14).
Social disparities	**… make the market reach marginalised population groups**	For the ongoing Togo-Benin power project (Benin Atlantic project), the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity.
Positive externalities	**… ensure economically feasible projects with high environmental and social benefits go ahead even if financially not feasible**	In Uganda, the IRS enabled a scaling up to about 4-5 times previous water project sizes by borrowing (Kampala Water – WASH/LVWATSAN/UG #27-28). The investment – which focused on the provision of quality potable water to all of Kampala including area where the poor live - was beyond what could be funded by either all-grant funding or loan alone.
Global public goods	**… provide and encourage contribution to global public goods**	Climate change with the Concentrated Solar Power plant in Morocco (Noor I) and the Egypt Wind Farm (ENER/O.SolarPlant/MA #15)

Sources of information: project documentation, and interviews with EUDs and IFIs representatives and beneficiaries for the 32 visited projects.
Quality of evidence: More than satisfactory.

Blending has been a way to target key policy objectives that covered multiple sectors in half of the cases reviewed (I-1.1.3). Blending projects often addressed national/regional policy objectives that were strategic to the recipient countries (see below table). These policy objectives covered diverse areas: economic development (TRANS/PAPN/CG #41-42), social infrastructure (WASH/LVWATSAN/UG #27-28), regional integration (ENER/WAPP/REG #2), green energy (ENER/Wind Farm/EG #32), conflict resolution (WASH/IWRM/CO #20), private sector development (BANK/EFSE/MC #36), etc. The policy objectives targeted either covered one key sector or multiple ones. For instance, the modernisation of the trolleybus fleet supported by blending (TRANS/PublicTrans/MD #10) enabled to focus on the improvement of public transport in the capital in line with the Municipal Public Transport Strategy as well as on the reduction of greenhouse gas emissions.

Sources of information: Project fiches/Application forms; EU Agreements; interviews in headquarters with IFIs; interviews in the field with IFIs, EUD and beneficiaries.
Quality of evidence: More than satisfactory.

JC 1.2 Extent to which blending has been strategically advantageous

Summary JC 1.2 Blending has been strategically advantageous

- **The need for 'grant-only' financing has been shrinking since 2000 with the significant reduction of low-income countries and increase of upper middle-income countries**
- **Under the impulse of the Agenda for Change reform drive, EU policies tended to restrict all-grant financing with more advanced developing countries (including therefore middle income countries) over time. This also mirrors the general trend of donor policies with respect to middle-income countries**
- **Both EU overall assistance and EU blending finance reflected these policy trends**
- **Continuing to engage in MICs via blending is a way for the EU to address complex global public goods challenges as well as the MDGs objectives, and especially to focus on continued poverty reduction in those countries**
- **Blending has also been a way to boost the flow of development resources to Poverty Reduction and Growth Trust-eligible low-income countries, including fragile states**
- **Blending has often offered advantages compared to alternative financing options, be they all-grant or all-loan**

The need for 'grant-only' financing has been shrinking since 2000 with the significant reduction of low-income countries and increase of upper middle-income countries (I-1.2.1). According to World Bank data, the number of low-income countries - where (all-) grant financing of development projects is generally justified - has been halved between 2000 and 2014 from 58 to 28. Conversely, the number of upper middle-income countries (UMICs) has increased from 36 in 2000 to 50 in 2014, while the number of lower middle-income countries (LMICs) remained stable: there were between 46 and 52 LMICs during the period 2000-2014. Moreover, the thresholds of income levels used by the WB for country classification have increased since 2000. This means that, in addition to the decrease of low-income countries (LICs) in general, LICs were better off – as far as income levels are concerned - in 2014 than in 2000. Finally, a study by Reisen and Garraway projects the number of LICs to shrink to 20 by 2025. These facts imply that the number of countries eligible for all-grant funding is shrinking and is projected to further decline in the medium-term.

Sources of information: World Bank data (Atlas method); Study by Reisen and Garraway: The future of multi-lateral concessional finance, 2013 for GIZ
Quality of evidence: Strong. (the statistical data analysis clearly shows that the number of LICs has reduced while the number of UMICs increased)

Under the impulse of the Agenda for Change reform drive, EU policies tended to restrict all-grant financing with more advanced developing countries over time. This also mirrors the general trend of donor policies with respect to middle-income countries (I-1.2.1). Since the early 2000s donors (including the EU) have been increasingly concerned with meeting specific developmental objectives (e.g. poverty reduction, financial inclusion and others MDG-linked objectives) and allocating grant aid to countries most in need and where they can demonstrate maximum impact. This progressively made difficult to justify all-grant funding in the growing group of middle-income countries. Some donors decided to continue focusing on the middle-income countries but opted for a reduction of grant allocation to these countries and searched for a new model to provide grant to these countries. The EU also adopted this approach. The Commission proposed in 2011 an Agenda for Change leading, amongst others, to a reduction of grant-based aid with more advanced developing countries already on sustained growth paths and/or able to generate enough own resources; and to 'differentiate development partnerships' to ensure best value for money. In line with the Agenda for Change reform drive, the European Commission adopted in 2014 its aid differentiation policy to recalibrate its development

cooperation with middle-income countries. It implies that upper middle-income countries (UMICs) are set to 'graduate' out of the Development Cooperation Instrument (DCI) but remain eligible for grant finance under other instruments (e.g. Instrument for Stability, EIDHR, etc.). Middle-income countries benefiting from the European Development Fund (EDF) will see reduced aid levels through 2020.

Sources of information: EC, Agenda for Change, 2011; European Parliamentary Research Service, Briefing: The Development Cooperation Instrument, 2014; ODI, Reassessing aid to middle-income countries: the implications of the European Commission's policy of differentiation for developing countries, 2012
Quality of evidence: Strong. (The team consulted key EU official documents as well as studies that all show that donor policies with respect to MICs tended to progressively restrict all grant-financing in those countries)

Both EU overall assistance and EU blending finance reflected these policy trends (I-1.2.1).

In examining overall trends in EU assistance between 2007 and 2014, one can notice that the bulk of EU assistance benefited both low-income countries and lower middle-income countries that represented altogether 76% of total EU assistance in 2007 and 69% in 2014. EU assistance to LMICs represented the bulk of EU development assistance efforts, with 40% of the assistance being directed to LMICs in 2007 and 47% in 2014. Furthermore, EU assistance to MICs has more than doubled, from €2,4 billion to €5,23. This evolution has mostly been driven by a doubling of EU assistance to LMICs (from €1,5 billion to €3,1 billion) and a doubling of EU assistance to UMICs (from €0,88 billion to €2 billion) – to be taken with caution since the number of UMICs increased from 36 to 47 during the same period. EU assistance to LICs remained relatively stable between 2007 and 2014 at around €1,4 billion while the number of LICs decreased from 39 to 31. EU assistance to fragile states rose between 2007 and 2014, from €1,5 billion to €2,6 billion, representing respectively 27% and 36% of total development EU assistance (while the number of fragile states countries remained stable as per WB list of fragile states).

Focusing now on blending, the inventory of blending projects shows that blending has been mostly allocated to lower middle-income countries, with two thirds of EU blending resources (68% or €756m) benefited this group – mostly provided by the NIF. Funding to LICs represented 17% (€191m) – mostly provided by the ITF. Funding to Upper- UMICs represented 13% (€149m) of the total[10]. Blending also benefited 9 countries classified at least once as fragile states by the World Bank during the 2007-2014 period[11]. EU blending grants provided to these 9 countries (€111m) represented 6,5% of total blending grants[12] and 0,2% of total EU assistance to all countries during the period 2007-2014. Moreover, some of the visited neighbourhood countries evidence that blending supported the transition from all-grant funding to all-loan funding. This is the case of Georgia where in the early days EU projects were mostly all-grant funding while in the recent period they are blended. This is also the case of Egypt where blending has sustained an evolution from grant to loans in the energy sector.

Sources of information: EuropeAid data; WB data for country classification; Inventory of blending projects produced within the frame of this evaluation.
Quality of evidence: Strong.

[10] The total corresponds to the grants awarded to blending projects implemented in one country only and equals €1,1 billion.

[11] For instance Liberia has been classified as fragile states throughout the period except for 2010 while Mali has only been recently classified by the WB as fragile state (in 2014).

[12] The total corresponds to the total blending grants awarded during the period, hence €1,7 billion.

Continuing to engage in MICs via blending is a way for the EU to address complex global public goods challenges as well as the MDGs objectives, and especially to focus on continued poverty reduction in those countries (I-1.2.1). As detailed in the above judgement criteria, the EU engaged with blending in key strategic sectors such as climate change, access to finance, and economic development through large-scale infrastructure projects. Besides, with most of the world's poor living nowadays in MICs, focusing EU cooperation on MICs is a way to target support on countries presenting poverty-related challenges. A large body of empirical evidence suggests there are reasons for supporting development and poverty reduction in MICs. The following four major reasons emerge from the literature:

- Firstly, the poverty landscape has been and is changing over time. Due to continuous per-capita growth since 2000 a range of countries with significant numbers of poor people like China and India have crossed the threshold between LICs and MICs. This led to a mechanical significant change in the poverty landscape which has seen poor people moving from LICs to MICs: while in 1990 93% of the world's poor lived in LICs, in 2011, 72 per cent of the extreme income-poor world-wide lived in MICs. These figures however hide strong regional disparities across continents and the non-financial dimensions of poverty have not been reduced to the same extent that income poverty has.
- Secondly, there is a risk for MICs of falling back to LICs. Enhancing the development of MICs is therefore a way of preventing them from falling back to LICs.
- Thirdly, MICs have spillover effects to nearby countries: in acting as regional hubs they have spillover effects that include debt relief, technical assistance and cooperation to support infrastructure investment, trade finance, public administration reform, etc.
- Fourthly, MICs can make crucial contribution to global public goods such as climate change that ultimately depend on the development paths of both developing and emerging countries.

Sources of information: ODI, The role of aid to middle-income countries: a contribution to evolving EU development policy, 2011; DIE, Changing global patterns of poverty, 2012; German Development Institute, Briefing paper: From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy, 2013; ODI, Power point presentation, The EU's policy on differentiation: Tackling poverty and global challenges?, no date.
Quality of evidence: More than satisfactory (on the basis of the review of a range of studies on development aid to MICs that all point to the same direction)

Blending has also been a way to boost the flow of development resources to Poverty Reduction and Growth Trust-eligible low-income countries, including fragile states, that benefited from a blended loan instead of a grant only. (I-1.2.2).

In order to help low-income countries with their debt management, the World Bank (WB) and the International Monetary Fund (IMF) introduced in 2005 the Debt Sustainability Framework (DSF). All the countries under a DSF are eligible to the Poverty Reduction and Growth Trust (PRGT), which is the IMF's concessional lending vehicle. Half of the countries having received blending finance during the period 2007-2014 have been PRGT-eligible or under IMF conditions. They received 26% (or € 0,46 billion) of total EU grants provided during the period 2007-2014. The total amount of blending loans contracted by these 24 countries is 5.7 billion euros or 14% of the total amounts of loans of all blending operations included in the inventory. This is the closest approximate of the additional development finance resources these countries benefited from in the sense that the loan figure also includes the grants provided by other donors and recipient governments (for mixed-grants projects) and shouldn't therefore be understood as being loan-only.

Not all PRGT-eligible countries are low-income countries. Blending also targeted low-income countries within the group of PRGT-eligible countries. Blending was provided to 16 (or 43% of the) PRGT-eligible low-income countries in 2007 and to 10 (or 36% of the) PRGT-eligible low-income countries in 2014. The EU prioritized PRGT-eligible LICs with 'low' and 'moderate' risks of debt distress for its blending operations. Indeed, out of the 16 countries targeted in 2007, 14 presented a 'low' or 'moderate' risk of debt distress. These 16 countries benefited during the period 2007-2014 from blending loans amounted to €3.9 billion. As above, this figure is an approximate of the additional development finance resources these countries could access to. For the six LICs classified as fragile states, the total amount of loans contracted amounts to €1 billion.

Sources of information: IMF data; WB data; Inventory of blending projects
Quality of evidence: More than satisfactory (on the basis of the statistical data treatment of the loans contracted by PRGT-eligible LICs within the framework of the blending operations).

Blending has often offered advantages compared to alternative financing options, be they all-grant or all-loan (I-1.2.3)**.** The team collected data, mostly through interviews[13], on the extent to which other financing options had been envisaged and on the pros and cons of blending compared to other financing options.

In most cases examined, there was insufficient financial capacity to resolve the problems with all-loan financing (I-1.2.3). It emerged from the close review of 32 projects that there was a clear case to use a grant in 25 cases. In those cases, key informants considered a loan-only option as not being possible and underlined that blending helped: to meet the IMF concessionality requirement; to compensate for the low borrowing capacity of the beneficiary country or borrower; to compensate for the insufficient financial return of specific loss-making or innovative activities that have innovative public good features; and/or to promote the development of unstructured and unattractive market segments having the potential for positive externalities. The table below further illustrates this finding. It should however be noted that in two out of these 25 cases that focused on the West Africa electricity market (ENER/WAPP/REG #2; ENER/ERERA/REG #3), it was however not fully clear why this all-grant support was funded by a blending facility (ITF) versus the EU's (all-grant) regional envelope. Besides, in three cases out of 32 examined, the case for the use of grants was less convincing. Interviewees met noted that the financing of the feasibility study for the container terminal expansion could probably have been financed from the loan financing for construction works (TRANS/PortWalvis/NA #4) because the study was needed to justify the loan proposal. Likewise, interviewees noted that the Small municipalities water project in Armenia (WASH/SMWP/AM #33), which deals with town water supply, could probably have been financed through a loan because the utility was not sufficiently strong financially. Finally, while the interviewees met for the metro rehabilitation project in Armenia (TRANS/MetroRehab/AM #9) noted that TA could in theory have been provided as loan, they also stressed that attention and compliance to the difficult conditionalities might have been less if there had not been a grant element.

Blending has also offered advantages compared to all-grant options (I-1.2.3). It enabled the EU to support major infrastructure that it would otherwise not have been able to finance. All field visits have shown that blending has been used to support major infrastructure-related projects (apart from Colombia where blending has been used to finance technical assistance to accompany AFD credit lines). The inventory of projects shows that with the €1.7 billion provided as grants for blending, economic development projects worth almost €40 billion have been implemented.

[13] One should keep in mind that the design documentation of blending projects has usually been poor on the analysis of alternative financing options.

Without blending the EU could not engage at scale because these projects would have absorbed a huge proportion of the EU development assistance. With blending the EU was able to support the construction of the full road to from A to B and not only the first kilometres of that road. Without blending, support to such large infrastructure projects would have to left to other agencies such as the IFIs, the WB etc. Besides, the qualitative and quantitative assessments made under JC1.1 and under this JC (I.1.2.2) show that blending enabled to resolve 'specific challenges', to engage in a growing number of MICs and to boost financial resources for LICs.

Sources of information: Inventory of blending projects; project documents and interviews in the field
Quality of evidence: More than satisfactory (this finding is mostly based on a range of interviews held for the 32 projects visited where the team systematically collected the view of key stakeholders on the pros of blending compared to all-loan or all-grant financing).

Table 9 - Blending vs all-loan or all-grant financing: what are the pros of blending?

Blending offered the advantage ….		Examples
Compared to a loan only-option	To meet the IMF concessionality requirement (the grant element of a loan was usually set at 35%)	This concerns a range of projects (TRANS/RoadRehab/MD #29; TRANS/PublicTrans/MD #10; WASH/LVWATSAN/UG #27-28; Benin-Togo Power Rehabilitation project LCO component; Benin Atlantic Project) in countries which have to comply with IMF levels of concessionnality such as Uganda, and West Africa. In other cases such as Armenia and Egypt, the government although not bound by IMF conditions adopts a prudent approach and (for most projects) only accepts loans with similar concessional rates.
	To compensate for the low borrowing capacity of the beneficiary country or borrower	Case of the road rehabilitation project in Moldova (TRANS/RoadRehab/MD #29)
	To compensate for the insufficient financial return of specific loss-making activities that have innovative public good features	• Rural electric sub-stations (ENER/PowerTrans/EG #31) • Sanitation investments (WASH/PNA-ONEP/MA #30, WASH/IWSP/EG #14), • Development of solar energy (ENER/O.SolarPlant/MA #15), • Promotion of wind energy (ENER/Wind Farm/EG #32).
	To promote the development of unstructured and unattractive market segments having the potential for positive externalities	Energy efficiency and renewable energy in Morocco and Jordan (ENER/SEFF/MA-JO #35) and in Kenya (ENER/Env.Credit lines/REG #43-44)
Compared to a loan- only option or to a grant-only option	More generally, to resolve 'specific challenges' (as detailed above in JC1.1)	In the cases examined in depth, blending has often provided crucial support at scale to nationally important infrastructure that grants alone could not have done (e.g WASH/LVWATSAN/UG #27-28)

Blending offered the advantage ….		Examples
	To engage in a growing number of MICs (as detailed above)	In Armenia, blending, by supporting nationally important infrastructure has helped boost economic performance beyond what the debt carrying capacity could sustain and sent a message to an increasingly vulnerable Armenia that they were not alone.
	To boost financial resources for LICs (as detailed above)	The above-mentioned water and sanitation project in Uganda is an example (WASH/LVWATSAN/UG #27-28).

Source: ADE analysis based on the table presenting 'blending specific challenges'

Sources of information: Interviews held with key informants in the 12 countries visited.
Quality of evidence: More than satisfactory.

Summary of the Data Collection Process for Evaluation Question 1

Judgement criteria information availability (go to indicator level if needed)	
JC 1.1	5
JC 1.2	5
1= low – 5 = high	

Hypotheses to be tested in the field	Evidence
▪ Projects posing specific challenges requiring blending will continue to grow	All the countries visited evidence that they face challenges in various areas where blending could add value. For instance, energy is and will remain in the coming years a priority development issue for West Africa. Most countries in this region are HIPC and need concessionary finance for public infrastructure investment projects.

1.4 Indicator analysis

JC 1.1 Extent to which blending has resolved specific strategic challenges

I-1.1.1 Existence of separate and diverse overall project objectives and special blending objectives to unblock the project or make it policy-compliant

Traditional blending projects objectives have generally been accompanied by specific challenges that required blending grants to be solved. Projects adopting a blending approach to the financing package shall have a specific reason for doing so, that is a challenge that the project faces and that needs to be overcome by mixing grant money into the package. The team examined in detail 32 projects through both documentary review and site visits to assess whether these projects aimed to tackle a 'specific challenge' and required a grant to do so. It used a ranking scale to determine whether there was strong justification to use a grant (score 'A'), moderate justification (score 'B') or weak justification (score 'C'). The result of this review is summarised in the below table which provides per project examined the *overall project objective* and the *special challenge for blending* to resolve, and the *degree of justification for grant funding*. The team found strong justification (score 'A') in 53% of the cases examined (17 cases out of 32) that blending was used to resolve a range of specific (policy) challenges that could only be resolved - or at least could most likely be resolved - by grant financing blended into the loan package[14]. But in 41% of the cases examined (13 cases out of 32), while the grant was found to be justified, there was still doubt (score 'B') on the extent

[14] See Volume 2 – EQ1 – Annex 1 on blending challenges of the 32 visited projects

to which the project really required a grant to materialize. For instance, in Armenia, the case for the use of grants was not strong for town water supply (WASH/SMWP/AM #33) and interview findings converged in indicating that loans alone could also have been a feasible option. Finally, in one of the cases examined (TRANS/PAPN/CG #41-42 – IRS), the case for a grant was not clear (score 'C') since the interviewees met indicated that other possibilities for loans at better conditions were available at the time to the beneficiary.

The specific challenges to be solved have encompassed different areas, from technology innovation, millennium development goals objectives, public goods and private sector finance. The challenges to be resolved by blending can be grouped per type as follows:

- Technology. New technology can be expensive and difficult to cost. Good examples are the various technologies employed by renewable energy projects. For instance, while the project objective of the Ouarzazate solar power project is to develop renewable energy, the specific challenge for blending is to eliminate a (blocking) distortion in cost of production and tariffs. Renewable energy projects are the classic cases where the policy objective – renewable energy – is at odds with the least-cost approach because the new technology is not (yet) aligned with the lowest costs of production available from old technology (e.g. of thermal energy). These projects often require a grant to be accommodated to increase financial viability.
- Millenium Development Goal (MDG) objectives, which cover a wide range of areas from education, water, environment to poverty reduction. They diminish financial viability because the social and pro-poor dimensions add non-viable components to development projects, which reduce overall cash flow to service loans. That usually leads to the need for a grant.
- Public goods. This is a classic case – many infrastructure projects fall under this category, especially transport infrastructure, waste water treatment, environment management projects. While there are ways of charging for these public goods in theory, these are often not practical for collectability and affordability reasons – instead grants may be needed to part-finance public goods.
- Private sector finance. For instance, while the project objective of the EFSE fund is to finance SMEs and *in fine* support private sector development, the specific challenge for blending is to involve private investors in providing funding for SME finance in risky environments.

Table 10 - Project objectives and specific challenge for blending to solve for the 32 visited projects

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
ENER/C.Intercon/NA-ZM #1	To secure energy supplies for Namibia and be energy trader in the Southern African Power Pool (SAPP)	To switch electricity source [IRS]	A
ENER/WAPP/REG #2	To establish a regional electricity market in West Africa	To update the WAPP Master Plan [TA]	B
ENER/ERERA/REG #3	To foster regional integration in the energy sector in West Africa	To establish the missing element : a regional regulatory authority (ERERA) [TA]	B
TRANS/PortWalvis/NA #4	To reduce transport costs in Namibia and neighbouring countries	To complete revision of feasibility studies for the container terminal expansion [TA]	B
TRANS/MasterPlan/NA-REG #5	To prepare an Integrated Transport Master Plan for Namibia	To identify potential investments in transport infrastructure in SADC [TA]	N/A
TRANS/MetroRehab/AM #9	To improve mass transport in the capital	To commercialise and modernise management of the metro [IG]	B
TRANS/PublicTrans/MD #10	To improve public transport services in the capital	To modernize the trolleybus fleet [IG]	A
WASH/IWSS/MD #11	To improve living conditions and reduce health risks for the population of the capital	To improve the provision of water and sanitation services [TA]	A
IND/SME Facility/REG #12	To finance SMEs	To encourage financial intermediaries to enhance their lending to MSMEs [TA/Loan guarantee]	A
WASH/KotaykSW/ AM	To improve management and disposal of waste	To encourage EU standards for waste management [IG]	B
WASH/IWSP/EG #14	To improve water sanitation services	To improve capacity of local utilities and break the viscous circle of poor performance and poor cost recovery [TA]	A
ENER/O.SolarPlant/MA #15	To generate renewable energy	To overcome a (blocking) tariff distortion [IG]	A

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
MULTI/SustDev/CO #19	To facilitate access to long-term financing, especially for intermediary and fragile cities	To produce pre-investment studies and institutional strengthening [TA] & investment projects [AFD and IDB loans]	B
WASH/IWRM/CO #20	To support the implementation of the IWRM sector policy	To facilitate water policy implementation [TA]	B
TRANS/Airport/MZ #25	To construct air-side infrastructure to resolve safety issues	To facilitate policy dialogue [TA/Credit facility for construction]	B
TRANS/Corridor/MZ #26	To fulfil traffic demands of Mozambique and neighbouring countries and contribute to wider socio-economic development	To inject a commercial dimension [IRS]	A
TRANS/RoadRehab/MD #29	To improve Moldova's national road infrastructure	To co-finance the rehabilitation of 500 km of road sections considered as basic public infrastructure [TA/Loan]	A
WASH/PNA-ONEP/MA #30	To improve sanitation services and the quality of the receiving environment in Morocco	To co-finance sanitation investments [TA]	A
ENER/PowerTrans/ EG #31	To increase and improve access to electricity	To ensure the project incorporated sub-stations that were in rural areas with poor supply and not among the most profitable for the utility [TA/IG]	A
ENER/Wind Farm/EG #32	To increase energy generation	To demonstrate the viability of renewable wind energy [IG]	A
WASH/SMWP/AM #33	To improve water supply and sanitation services	To commercialise and modernise management of utilities [TA/IG]	B
ENER/SEFF/MA-JO #35	To promote energy efficiency and the use of renewable energy sources	To provide incentive for the prioritisation of sustainable energy investments over other investments opportunities/needs [IG]	A
BANK/EFSE/MC #36	To finance SMEs	To mobilise private funding for SME finance [Risk capital]	A
WASH/LVWATSAN/UG #27-28	To improve water and sanitation services in Kampala through combination of physical interventions and capacity building	To improve coordinated planning of water and sanitation and shift the approach to deal with the entire 'water cycle' [TA & IRS]	A

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
ENER/Env.Credit lines/REG #43-44	To finance energy related SMEs	To give confidence to banks to lend to energy related SMEs [TA]	A
TRANS/PAPN/ CG #41-42	To enhance regional integration by increasing the capacity of the Port to handle imports to and exports from Congo and surrounding countries	To rehabilitate, extend and develop new port infrastructure in order to improve existing Port business and grow future business by allowing the Port to handle larger container ships [IRS/TA]	C (for IRS component)
Georgia Batumi Water	To reduce non-metered water loss (from faulty pipes – estimated to be up to 80% of water) and provide 24/7 water supply to all households	To address a) the water sourcing problem outside the municipality of Batumi and beyond the jurisdiction of the municipal water company and b) the financial issues arising from lack of water meters	B
Georgia Power transmission	To build main power lines and connect to the Turkish grid with a sub-station	To address complex technical management issues (within affordability and debt constraints) and deal with a pressing environmental problem	B
Georgia Enguri Hydro	To restore a major hydro renewable energy facility and repair the dam wall in order to raise safety standards and reduce risk	To resolve downstream and access problems which are beyond the jurisdiction of the HPP entity but which prevent the Enguri Hydro Power Project from working normally	B
Kenya Lake Turkhana Wind	To boost electricity generating capacity and switch the mix away from oil-fired power stations to renewable energy	To fill a financing gap for mezzanine finance as the financial parameters could not sustain more debt finance nor more equity	B
Benin-Togo Power Rehabilitation project (LCO component)	To rehabilitate the electric transmission networks of Togo and Benin	To attain sufficient level of concessionary finance for such large rehabilitation project of transnational backbone network infrastructure [IRS]	A
Benin Atlantic project	To provide reliable electricity to a major dormitory city and 81 rural villages of that province	To attain sufficient level of concessionary finance for the entire project, and more specifically to include a rural component	A

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Justification for grant funding: Ranking A (strong), B (moderate) or C (low)
		[significant investment grant: 20M€ out of 58M€]	

Sources: Project fiches/Application forms, EU financing agreements, Interviews in the field with IFIs, EUDs and beneficiaries

I-1.1.2 The success (or failure) of the blending grant to resolve the specific blending challenge

Blending was often successful in resolving the specific challenge it was used for. The review of the 'special challenges table' (see below in annex 1) shows that in 25 out of 32 cases (or in 78% of the cases) examined, blending was successful to resolve the specific challenge. In some cases (4 out of 32), blending only party succeeded in resolving the specific challenge it was used for. In 3 cases out of 32, blending could not resolve the specific challenge is was intended to resolve.

When blending succeeded in resolving the specific challenge it was used for, it helped:

- To co-finance the rehabilitation and/or extension of public infrastructure, including basic ones. This concerns for instance the extension and development of the Port of Pointe Noire infrastructure so as to extend port business (TRANS/PAPN/CG #41-42), the rehabilitation and extension of sanitation services in 30 urban centres in Morocco (WASH/PNA-ONEP/MA #30), the rehabilitation of the road section of the R14 Balti-Sarateni in Moldova, the modernization of the trolleybus fleet in Chisinau (TRANS/PublicTrans/MD #10), or the rehabilitation of the transnational backbone electric network infrastructure in Benin and Togo (Benin-Togo Power Rehabilitation project (LCO component));
- To realise key pre-investment studies: for the development of the Western African energy market (ENER/WAPP/REG #2), for the viable expansion of Port Walvis in Namibia (TRANS/PortWalvis/NA #4), for supporting sustainable urban development in Colombia (MULTI/SustDev/CO #19), or for improvement of Water and Sanitation Systems in Chisinau (WASH/IWSS/MD #11);
- To modernise the management of public utilities, notably in the water and sanitation sector (WASH/LVWATSAN/UG #27-28, WASH/IWSP/EG #14, WASH/SMWP/AM #33). In Egypt, the IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff. In parallel, the TA aimed to improve the management and performance of the utilities because it was recognised that poor performance was not only an investment issue but also a management one. In Uganda, the use of part loan funding enabled the project to be much larger (4-5 times) than previous WATSAN projects in Uganda. Furthermore, an holistic approach to the entire water supply chain from the catchment area to final disposal of treated waste water in Lake Victoria was introduced through TA. The larger project size and special approach enabled all areas of municipal Kampala to be covered – and about 16 out of 21 are estimated to be poor areas. In Armenia, the grant subsidy allowed the utility to address regional disparities in access to water services and to bridge the gulf in investment that occurred since the collapse of the Soviet Union.
- To mobilise private sector funding for energy efficiency and renewable energy investments in Kenya, Morocco and Jordan (ENER/Env.Credit lines/REG #43-44; Kenya Lake Turkhana Wind; ENER/SEFF/MA-JO #35), and in the Easter Neighbourhood region for SME finance (IND/SME Facility/REG #12, BANK/EFSE/MC #36).
    - Blending unblocked the special challenges faced by the SUNREF project (ENER/Env.Credit lines/REG #43-44): SUNREF needed various special support and grant-based inputs – especially technical expertise in a new area (REEE technologies), adapted risk management assessments in the banks, and 'blazing the trail' in new territory to actually make it happen e.g. drafting and agreeing the Special Power Purchase Agreement (SPPA) for a small generator of solar power to sell it back into the grid.
    - The EFSE project design used the risk capital grant to mobilise private resources for SME finance in risky environments. In the case of the SME facility project, grants were used to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions and leasing companies to finance SMEs, which hitherto they had avoided. In

Georgia, due to the portfolio guarantee under the SMEFF, ProCredit Bank for example increased its exposure to agriculture from near zero to between 12-15%.

- To eliminate a tariff distortion. This particularly concerns the case of Noor I (ENER/O.SolarPlant/MA #15) and El Zayt wind farm (ENER/Wind Farm/EG #32). For Noor I, the grant enabled to overcome a tariff issue (by reducing by 30% the electricity production costs resulting from the solar technology) and unblocked a massive renewable energy project. For the El Zayt wind farm, the 8% investment grant (although low) brought the price of energy close to the price of conventional generation. The project created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector.
- To facilitate public policy implementation: this particularly concerns water policies in Colombia (WASH/IWRM/CO #20). The grant is being used to finance the pilot project of Lake Tota, which enabled the implementation of public policies at local level that remained rather poor until now.

This finding is confirmed by the interviews held at the headquarters of IFIs which suggested that blending has often enabled these institutions to reach out to sectors and types of projects that were previously blocked or unattractive for various reasons – such as inadequate financial returns – or an obstacle moving forward such as high costs of power generation, or a tariff issue.

Cases where blending partly succeeded in resolving the specific challenge include:

- Policy-related projects:
  - ENER/ERERA/REG #3: the regional regulatory authority (ERERA) has been established and completed a series of activities. However, several activities have not yet been launched or completed. ERERA suffers essentially from lack of political commitment from ECOWAS Member States to this regional regulatory authority and from the absence to date of an effective energy market which it would be intended to regulate.
  - TRANS/Airport/MZ #25: Blending has hardly resulted in facilitation of policy dialogue but contributed to the preparation of operations and maintenance plans for the facilities delivered by the project through consultancy services. These plans are intended to form the basis to be taken as a structure for longer term management.
- A project co-financing infrastructure investment: with the Caprivi interconnector project (ENER/C.Intercon/NA-ZM #1), blending aimed to switch electricity source and promote renewable energy. While the project was strategically positioned to improve Namibia's security of power supply for Nampower or Namibia, this was not necessarily the best financial decision.
- A project to enhance the management / capacity of public utilities: the challenge to commercialise and modernise the management of the metro in Armenia has been met (enhanced safety and reliability, energy efficiency, greater elements of consumer orientation and commercialisation in public utilities) but the investment grant expanded the scope of the works rather than directly addressed a special challenge (TRANS/MetroRehab/AM #9).

Cases where blending has not succeeded in resolving the specific challenge include:

- The Integrated Transport Master Plan (ITMP) for Namibia has not been endorsed by cabinet and has to some extent been 'overtaken' by the ongoing preparation of the 'Master Plan for development of an international logistics hub for SADC countries in Namibia. There is as yet, no uptake on identified, prioritised interventions (TRANS/MasterPlan/NA-REG #5).
- The Kotayq solid waste management project (WASH/KotaykSW/AM #13): while in principle the concept had the potential to use a grant element to address an important challenge (the applicability of EU standards for landfills), the project design did not take into account that the enabling environment in terms of strategy and stakeholder consensus was not in place. The project has hence not yet started. The particular financing scheme of allowing the municipality

to become the sub-borrower is innovative and potentially risky but was found too cumbersome and difficult to implement and eventually abandoned.

- The Beira corridor project has not succeeded in injecting a commercial dimension in rail management in a post-war fragile economy. The rail component did not deliver intended benefits because of the structure of the Concession Agreement and because of ineffectual supervision. Besides, the poor performance of this component, coupled with the high profile of the public-private partnership, led to negative perceptions of such partnerships in Mozambique (TRANS/Corridor/MZ #26).

Blending responded in various ways to the underlying reasons related to the special challenges. The different blending instruments allowed for a varied response where projects could make use of and where relevant combine technical assistance, technology transfer, capacity development, policy and institutional reforms with direct investment subsidy and reduction of risk. Examples of how blending instruments have been used to address the underlying reasons for the special challenges (see Annex 1 Table on 'Special challenges') include:

- Information – using the grant to improve the information environment so that private sector actors make the right decisions. In Moldova (BANK/EFSE/MC #36) financial literacy was provided as part of the blending project so that SMEs and individuals were able to take the right decisions and properly prepare investment proposals that would benefit them. In Kenya, the SUNREF project (ENER/Env.Credit lines/REG #43-44) provided technical assistance to improve the risk management procedures and appreciation of the opportunities for funding small-scale renewable projects. In both cases, the grant element of blending improved the information environment and triggered a situation where normal market mechanisms could gradually take over.
- Risk - using the grant to change the perception of risk so that investors are encouraged to invest in productive and not just speculative investments. In Eastern and Southern Europe the EFSE programme (BANK/EFSE/MC #36) by providing a first loss cushion and preferential shares has increased the willingness of the financial intermediaries to provide services to more risky clients.
- Capacity - using the grant element to introduce and develop capacity to make use of new technology. In Morocco, the NIF grant partly used to finance the Moroccan Agency for Solar Energy's (MASEN) minority equity participation in the Solar Project Company was key for MASEN to progressively gain experience in the renewable energy area (ENER/O.SolarPlant/MA #15). The El Zayt wind farm – which has been online for over a year and is fully functioning - has built the government confidence in wind energy installations and in their own capacity to manage or regulate similar projects (ENER/Wind Farm/EG #32).
- Reforms - using the grant element to cover part of the political cost of difficult reforms. In Egypt, IWSP has helped laid the groundwork for sector reforms that will encourage greater private sector participation. IWSP investments made the idea of a water tariff increase more acceptable in light of the tangible improvements to water and wastewater services in rural areas (WASH/IWSP/EG #14). In Armenia, the Yerevan Metro Rehabilitation project (TRANS/MetroRehab/AM #9), together with others, has raised the government attention to the need for integrated traffic management. The 2nd phase of the project had a covenant embedded by the IFI on reforming the urban transport network. It is plausible that the grant, through conditionality, facilitated institutional advances such as the doubling of the tariff and reduction in over-manning.
- Social disparities – using the grant so the market reaches marginalised population groups. For the ongoing Togo-Benin power project (Benin Atlantic project), the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity. In Armenia, the grant subsidy of the small municipalities water project (WASH/SMWP/AM #33) allowed the utility to address regional disparities. The Caprivi

Interconnector project (ENER/C.Intercon/NA-ZM #1) intended to use some generated revenues for rural electrification purposes (with potential impacts upon rural socio-economic benefits).

- Positive externalities – using the grant to ensure economically feasible projects with high environmental and social benefits go ahead even if financially not feasible. The water and sanitation project in Uganda (Kampala Water – WASH/LVWATSAN/UG #27-28) focused on the provision of quality potable water to all of Kampala including peri-urban areas where the poorer segments of the urban population live. The investment was beyond what could be funded by either all-grant funding - which by definition implied smaller amounts and smaller projects - or loan alone, also bearing in mind the DSF concessionality requirement on loans of 25%. The IRS enabled a scaling up to about 4-5 times previous water project sizes by borrowing.
- Global public goods - using the grant to provide and encourage contribution to global public goods. Examples include climate change with the Noor I Concentrated Solar Power (ENER/O.SolarPlant/MA #15) and the Egypt Wind Farm (ENER/Wind Farm/EG #32).

I-1.1.3 The strategic and policy objectives targeted by resolving the blocking strategic challenge

Blending has been a way to target key policy objectives that covered multiple sectors in half of the cases reviewed.

Blending projects often addressed national/regional policy objectives that were strategic to the recipient countries (see below table). These policy objectives covered diverse areas: economic development (TRANS/PAPN/CG #41-42), social infrastructure (WASH/LVWATSAN/UG #27-28), regional integration (ENER/WAPP/REG #2), green energy (ENER/Wind Farm/EG #32), conflict resolution (WASH/IWRM/CO #20), private sector development (BANK/EFSE/MC #36), etc. For instance, the two blending projects implemented in Colombia (WASH/IWRM/CO #20, MULTI/SustDev/CO #19) were clearly focused on the reduction of the Colombian social divide, which is a strategic theme in the Colombian context. In aiming to reduce social tensions, they also aim to contribute to consolidate peace.

The policy objectives targeted either covered one key sector or multiple ones as further detailed in the two examples provided below.

- In unblocking a tariff distortion for the Ouarzazate solar plant (ENER/O.SolarPlant/MA #15), blending focused on the promotion of renewable energy in contributing to the implementation of Morocco's renewable energy strategy: the Moroccan Solar Plan.
- The modernisation of the trolleybus fleet supported by blending (TRANS/PublicTrans/MD #10) enabled to focus on the improvement of public transport in the capital in line with the Municipal Public Transport Strategy as well as on the reduction of greenhouse gas emissions. In this case, the scale of the blending project where the grant element promised an affordable and comprehensive solution to the persistent problems in public transport in the capital city was sufficiently politically attractive to bring about a decision to increase productivity and adopt modern management.

Table 11 - Which type of policy objectives have been dealt with by resolving the challenge?

Project	Which type of policy objectives was supported?	Sector targeted by the policy objectives
ENER/WAPP/REG #2	To establish a regional electricity market	Regional integration & Energy
TRANS/PublicTrans/MD #10	To improve public transport in the capital & to reduce greenhouse gas emissions	Transport & Energy
WASH/IWSS/MD #11	To improve access to social services for the population	Social infrastructure
IND/SME Facility/REG #12	To mobilise private sector funding	Private sector development
WASH/IWSP/EG #14	To improve access to sanitation services for the population	Social infrastructure
ENER/O.SolarPlant/MA #15	To boost renewable energy	Green energy
MULTI/SustDev/CO #19	To improve competitiveness and quality of life in all the regions of Colombia	Socio-economic development
WASH/IWRM/CO #20	To improve access to water services to the population and to reduce the Colombian social divide	Social infrastructure and conflict resolution
TRANS/RoadRehab/MD #29	To support economic development through rehabilitation of infrastructure	Economic development & Infrastructure
WASH/PNA-ONEP/MA #30	To improve access to sanitation services for the population	Social infrastructure
ENER/PowerTrans/EG #31	To boost renewable energy	Green energy
ENER/Wind Farm/EG #32	To boost renewable energy	Green energy
WASH/SMWP/AM #33	To improve municipal water supply and treatment	Social infrastructure
ENER/SEFF/MA-JO #35	To mobilise private sector funding for energy efficiency and renewable energy projects	Private sector development & Energy
BANK/EFSE/MC #36	To mobilise private sector funding	Private sector development
WASH/LVWATSAN/UG #27-28	To improve infrastructure & to supply water to poor households of Kampala	Social infrastructure
ENER/Env.Credit lines/REG #43-44	To mobilise private sector funding for energy efficiency and renewable energy projects	Private sector development and Energy
TRANS/PAPN/CG #41-42	To support the economic integration of Congo in international trade & to improve the port infrastructure	Economic development

Source: Project fiche/Application forms, EU Agreements (TAPs); Interviews held during the country visits with key informants

JC 1.2 Extent to which blending has been strategically advantageous

I-1.2.1 There are advantages of continuing to engage in LMICs and MICs

Evolution of the number of LMICs and MICs during the 2007-2014 period and projections by 2025

The number of low-income countries has been halved since 2000. Conversely the number of upper middle-income countries has increased, while the number of lower middle-income countries remained stable. These facts imply that 'grant-only' financing opportunities have been shrinking.

The IDA-line is defined as poor or low-income countries where aggregate per capita income is below $ 2 per day or $1,215 per capita p.a. In 1960, when IDA was established, around 106 countries were eligible for IDA's grants and/or its 'grant equivalent' loans[15]. Since then 36 countries have 'graduated', though 8 of those have relapsed to below the annual income threshold. In 2015 there were 78 IDA eligible countries.

There has been a serious historic shift since 2000 with the lowest income countries having halved in number with economic growth. The below table shows that 28 countries remained in the lowest poor-country group in 2014 where (all-) grant financing of development projects is generally justified. Back in 2000, they were 56. Set against that just below 100 countries were classified as 'middle income' in 2014; with 50 countries in the lower middle-income category and 48 countries in the middle-income group. While the number of lower-middle income countries remained globally stable since 2000 (there were between 46 and 52 lMICs during the period 2000-2014), the number of upper middle income countries has gradually increased during the period 2000-2014, going from 36 in 2000 to 50 in 2014. Finally, the number of high incomes countries (HICs) remained stable during the period 2000-2014.

Table 12 - Evolution of the number of countries by type of country during the period 2000-2014

Type of country	2000	2004	2007	2014
LICs	56	53	39	28
lMICs	48	52	52	46
uMICs	36	39	45	50
HICs	45	49	59	48
No data	29	21	19	42
Total	**214**	**214**	**214**	**214**

Source: World Bank data

Note: the table below was constructed on the basis of the analytical classifications[16] and data[17] of the World Bank. WB data uses the Atlas method which takes into account the GNI per capita of each country. The table reflects available data. Data could not be systematically found for a number of countries in 2000 (29 countries), 2004 (21 countries), 2007 (19 countries), and 2014 (42 countries).

15 Technically the IDA provides grants *and* loans which can be with 25-40 year maturities, carry interest between 1.5-2.4% p.a. and have grace periods of 5-10 years. These terms are so 'soft' that they are considered near-grants.

16 http://siteresources.worldbank.org/DATASTATISTICS/Resources/OGHIST.xls

17 http://databank.worldbank.org/data/reports.aspx?source=2&series=NY.GNP.ATLS.CD&country=#

Moreover, the thresholds of income levels used by the WB for country classification have increased since 2000 (see below table). This means that, in addition to the decrease of LICs in general, LICs were better off –as far as income levels are concerned- in 2014 than in 2000.

Table 13 - Thresholds of income level used by the WB for country classification during the period 2000-2014

Type of country	2000	2004	2007	2014
LICs	<= 755	<= 825	<= 905	<= 1,045
lMICs	756-2,995	826-3,255	906-3,595	1,046-4,125
uMICs	2,996-9,265	3,256-10,065	3,596-11,115	4,126-12,745
HICs	> 9,265	> 10,065	> 11,115	> 12,745

Source: World Bank data

Projections about the evolution of the number of middle-income countries suggest that there should be 'market growth' for blending as more countries become 'middle-income'.

Taking the group of 28 lowest-income countries defined by the World Bank (see above table), a study by Reisen and Garraway (The future of multi-lateral concessional finance, 2013 for GIZ) projects this number to shrink to 20 by 2025 – about 10 years from now. While it is not ruled out that countries may suffer declining incomes which can put them back in the low income group, this projection does suggest that the number of countries eligible for all-grant funding will shrink.

Is all-grant funding and other financial instruments in LMICs and MICs restricted, or ruled-out, by EU policy?

Under the impulse of the Agenda for Change reform drive, the EU tended to restrict all-grant financing in middle-income countries over time. This also mirrors the general trend of donor policies with respect to middle-income countries.

Generally speaking, donor policies have been over recent years under a range of pressures which generally boil down to two things – i) meeting specific developmental objectives (e.g. poverty reduction, financial inclusion and others MDG-linked objectives) and ii) rationing public money (grants) carefully and justifying their optimal 'maximum impact' use. Collectively, these policies make it difficult to justify all-grant funding in the growing group of middle-income countries.

Box 1 - Donor policies for UMICs and LMICs

A large body of research literature deals with donor positions on providing grants (public money) in lower-middle and upper-middle income countries.

At headline level, about 145 countries are eligible to receive concessional (ODA) finance as their aggregate per capita income is below US$ 12,600 p.a. Yet clearly the variety within such a large number of countries is immense – it includes Turkey and China at the richer end as well as Bangladesh and Sierra Leone at the poorer end. Concerns that ODA money is not reaching those most in need has caused the OECD DAC Donors Group to re-think its allocation policies – basically trying to steer scarce funding to countries where it is needed most.

One approach has been to focus on the middle income group – especially UMICs but also LMICs and:

- Reduce the grant allocation to these countries
- Seek a new model – or intervention logic – for providing grants in these countries.

The European Union inscribes itself within this approach. The Commission proposed in 2001 an Agenda for Change leading, amongst others, to 'an increased volume and share of EU aid to the countries most in need and where the EU can have a real impact, including fragile states' (...) 'Grant-based aid should not feature in geographic cooperation with more advanced developing countries already on sustained growth paths and/or able to generate enough own resources.' (…) 'To ensure best value for money, the EU should differentiate development partnerships'. (Source: European Commission, Increasing the impact of EU Development Policy: an Agenda for Change, 2011). In line with the Agenda for Change reform drive, the EU European Commission adopted in 2014 its aid differentiation policy to recalibrate its development cooperation with middle-income countries (MICs). It introduced two changes: (1) new aid allocation criteria; and (2) differentiated development partnerships for different categories of countries. It is applied to just one EC development instrument – the Development Cooperation Instrument (DCI). In particular, upper middle-income countries (UMICs) on the OECD/DAC list and countries with more than 1% of the world's gross domestic product (GDP) are set to "graduate" out of the DCI. Grant based bilateral aid has been cut from selected countries (16 middle-income countries) from 2014 onwards. These countries remain eligible for grant finance under other instruments such as the Instrument for Stability, the EIDHR, DCI thematic envelopes, etc. As far as the EDF is concerned, middle-income countries are slated to see reduced aid levels through 2020. Each EDF country however remains eligible for assistance. (Sources: European Parliamentary Research Service, Briefing: The Development Cooperation Instrument, 2014; ODI, Reassessing aid to middle-income countries: the implications of the European Commission's policy of differentiation for developing countries, 2012)

Another approach focuses on the poor irrespective of the country's annual income per capita. The following quotes highlight that debate:

- "Poor people matter wherever they live," said Concord (a European Confederation of NGOs working with development) in a written submission to the DAC. "Hence, poor people living in middle-income countries cannot be left behind and a revised DAC recipient list cannot assume that their governments will be willing and able to deal with eradicating poverty, fight[ing] against inequality and adaptation towards a more sustainable development."
- "A country's income status is not sufficient to give a true and accurate picture of its population's living conditions. Other indicators, such as development, inequality and vulnerability criteria, should be brought into the calculations," it added.
- The Danish NGO Forum also argued that middle-income countries should still receive aid in certain circumstances. "The perseverance of poverty is more a distribution question than a question of lack of resources," it said.

The 'bottom line' of this debate is that the principal donors are seeking a new model to allocate their grants in lower-middle and upper-middle income countries – and that this new model focuses on selective and specific challenges e.g. poverty eradication and other policy objectives. Blending is one such model that continues to justify concessional finance to the middle-income group.

Evolution of EuropeAid development assistance to middle income countries (MICs and LMICs) during the 2007-2014 period

Between 2007 and 2014, EU assistance to LMICs represented the bulk of EU development assistance efforts, with 40% of the assistance being directed to LMICs in 2007 and 47% in 2014. Furthermore, EU assistance to MICs has more than doubled, from €2,4 billion to €5,23. This

evolution has mostly been driven by a doubling of EU assistance to LMICs (from €1,5 billion to €3,1 billion) and a doubling of EU assistance to UMICs (from €0,88 billion to €2 billion) – to be taken with caution since the number of UMICs increased from 36 to 47 during the same period. EU assistance to LICs remained relatively stable between 2007 and 2014 at around €1,4 billion while the number of LICs decreased from 39 to 31.

Table 14 - Evolution of EU assistance by type of countries (Euros and %)

Year	LICs (#)	EU assistance to LICs	LMICs (#)	EU assistance to LMICs	UMICs (#)	EU assistance to UMICs	Total amount of EU assistance to MICs	Total amount of EU assistance
2014	31	€ 1 442 393 483	49	€ 3 131 977 873	47	€ 2 095 629 053	**€ 5 227 606 926**	**€ 6 670 000 409**
2007	39	€ 1 355 959 019	48	€ 1 512 401 066	36	€ 888 496 131	**€ 2 400 897 197**	**€ 3 756 856 216**

Year	% of EU assistance to LICs	% of EU assistance to LMICs	% of EU assistance to UMICs	% of EU assistance to MICs	Total
2014	21,6	47,0	31,4	78,4	100%
2007	36,1	40,3	23,6	63,9	100%

Source: ADE calculations on the basis of EU aid explorer data for EU assistance and WB data for country classification

Evolution of EU assistance to fragile states during the 2007-2014 period

EU assistance to fragile states rose between 2007 and 2014, from €1,5 billion to €2,6 billion, representing respectively 27% and 36% of total development EU assistance (see below table). The number of fragile states countries having benefited from EU assistance remained stable in the meanwhile (35 countries in 2007 and 36 countries in 2014) as per WB list of fragile states.

Table 15 - Evolution of EU assistance to fragile states (Euros and %)

EU assistance	2007	2014	EU assistance growth rate
EU assistance to all fragile states	€1 527 710 949	€2 563 600 701	67,8%
EU total development assistance	€5 752 132 029	€7 137 146 233	24,1%
Share of EU assistance to all fragile states in EU total development assistance	**27%**	**36%**	

Source: ADE calculations on the basis of EU aid explorer data and of the 2007 and 2014 WB country classification for fragile states

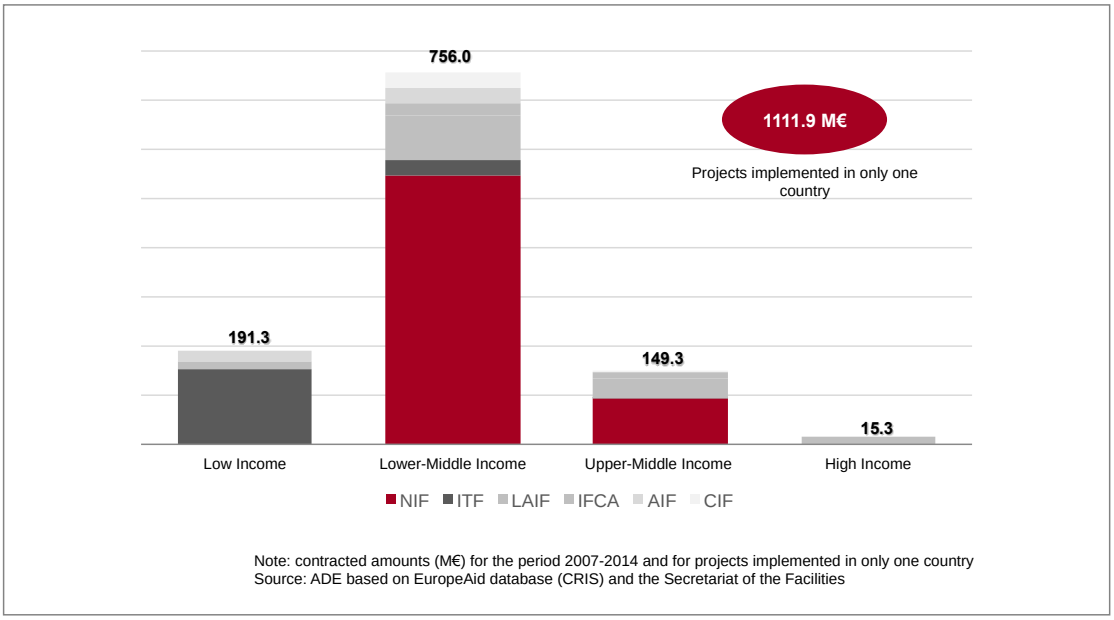
Evolution of the allocation of blending grants by type of country

In being mostly allocated to lower middle-income countries, blending has reflected the evolution of EU policy trends. As shown in the bar chart, two thirds of EU blending resources (68% or 756 M€) benefited Low-Middle Income Countries[18] (LMICs - mostly provided by the NIF). Funding to Low Income Countries represented 17% (191 M€) – mostly provided by the ITF. Funding to Upper-Middle Income Countries (UMICs) represented 13% (149 M€) of the total.[19]

[18] Based on the World Bank Indicator "GNI, Atlas method (current US$)" from 1 July 2014. Low income economies (L) are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,045 or less in 2013; lower-middle income economies (LM) are those with a GNI per capita of more than $1,045 but less than or equal to $4,125; upper-middle income (UM) economies are those with a GNI per capita of more than $4,125 but less than or equal to $12,745; high income economies are those with a GNI per capita of $12,746 or more.

[19] Funding to projects covering multiple countries are not included in these calculations.

Figure 1 - EU blending funding by type of country



Note: contracted amounts (M€) for the period 2007-2014 and for projects implemented in only one country
Source: ADE based on EuropeAid database (CRIS) and the Secretariat of the Facilities

In some of the visited neighbourhood countries, blending supported the transition from all-grant funding to all-loan funding. This is the case of Georgia where in the early days projects were mostly all-grant funding while in the recent period most EU projects implemented in Georgia are blended. This is also the case of Egypt where blending has sustained an evolution from all-grant funding to loan funding. Within the energy and water sectors there has been an evolution in development cooperation from grants to loans and even mobilising private sector finance. Prior to the IWSP I (WASH/IWSP/EG #14) and the El Zayt wind farm (ENER/Wind Farm/EG #32), most if not all development cooperation within water and waste water was granted based. Following these two blending projects, development cooperation is based on concessional loans and Public-Private-Partnerships (PPP) and Build-Own-Operate (BOO) agreements are taking place in the water and energy sectors. The blending and earlier grant projects have contributed to demonstrating that the technology, institutional set up and government commitment to improved energy and water can support market-based approaches.

Trends of EU blending grants to fragile states

EU blending grants have been provided to 9 countries classified at least once as fragile states by the World Bank during the 2007-2014 period (see below table). For instance Liberia has been classified as fragile states throughout the period except for 2010 while Mali has only been recently classified by the WB as fragile state (in 2014). EU blending grants provided to these 9 countries (€ 0,1 billion) represented 6,5% of total blending grants and 0,2% of total EU assistance to all countries during the period 2007-2014.

Table 16 - EU assistance to fragile states having received blending finance (2007-2014) (Euros and %)

Fragile States having received blending finance	EU assistance	EU grant contribution	Share of EU grants in EU assistance
Liberia	€160 462 057	€14 800 000	9,2%
Mali	€78 781 126	€1 000 000	1,3%
Nepal	€181 973 964	€2 407 500	1,3%
Sierra Leone	€106 088 607	€2 500 000	2,4%
Cameroon	€26 753 224	€6 900 000	25,8%
Georgia	€414 419 494	€55 160 000	13,3%
Tajikistan	€92 938 813	€14 400 000	15,5%
Cambodia	€125 385 089	€6 288 000	5,0%
Uzbekistan	€27 053 890	€8 248 000	30,5%
Total	**€1 213 856 264**	**€111 703 500**	**9,2%**
All EU assistance to all countries	**€52 055 716 705**		**0,2%**
All EU grants for the full portfolio of projects		**€1 714 798 046**	**3,3%**
Shares of Total in Grand total	**2,3%**	**6,5%**	

What are the advantages to the EU of continuing to engage in the growing number of LMICs and MICs via blending?

The strategic orientations proposed in the Agenda for change invite the Commission, amongst others, to: 'focus on investing in drivers for inclusive and sustainable economic growth, providing the backbone of efforts to reduce poverty'; and 'focus on helping reduce developing countries' exposure to global shocks such as climate change, ecosystem and resource degradation, and volatile and escalating energy and agricultural prices, by concentrating investment in sustainable agriculture and energy'.

Continuing to engage in MICs via blending is a way for the EU to focus on development and poverty reduction. With most of the world's poor living nowadays in MICs, focusing EU cooperation on MICs is a way to target support on countries presenting poverty-related challenges. A large body of empirical evidence suggests there are reasons for supporting development and poverty reduction in MICs. The following four major reasons emerge:

- Firstly, the poverty landscape has been and is changing over time. Due to continuous per-capita growth since 2000 a range of countries with significant numbers of poor people like China and India have crossed the threshold between LICs and MICs. This led to a mechanical significant change in the poverty landscape which has seen poor people moving from LICs to MICs: while in 1990 93% of the world's poor lived in LICs, in 2011, 72 per cent of the extreme income-poor world-wide (defined by the 1.25 USD Purchasing Power Parity (PPP) poverty line) lived in MICs (Sumner, 2011). These figures however hide strong regional disparities. While countries in East and Southeast Asia have achieved significant progress in income poverty reduction, countries in Latin America, Central Asia and the Middle East have been less successful. Besides, the per capita income threshold is not an indicator of structural change. The non-financial dimensions of poverty have not been reduced to the same extent that income poverty has.
- Secondly, there is a risk for MICs of falling back to LICs. Enhancing the development of MICs is therefore a way of preventing them from falling back to LICs.
- Thirdly, MICs have spillover effects to nearby countries: they act as regional hubs or 'poles of development at the regional level'. Spillover effects provided by MICs include debt relief, technical assistance and cooperation to support infrastructure investment, trade finance, public administration reform, etc.

- Fourthly, MICs can make crucial contribution to global public goods. Major global challenges such as climate change, food insecurity, financial instability, communicable diseases, migration, conflict and insecurity are not only challenges that affect all countries; they also ultimately depend on the development paths of developing and emerging countries. Studies also highlight that MICs are important actors in the prevention of global public 'bads'.

Sources: ODI, The role of aid to middle-income countries: a contribution to evolving EU development policy, 2011; DIE, Changing global patterns of poverty, 2012; German Development Institute, Briefing paper: From Poverty Reduction to Mutual Interests? The Debate on Differentiation in EU Development Policy, 2013; ODI, Power point presentation, The EU's policy on differentiation: Tackling poverty and global challenges?, no date

Continuing to engage in MICs is also a way for the EU to address complex global public goods challenges as well as the MDGs objectives. As detailed under JC1.1, with blending the EU could engage in key strategic sectors such as climate change through renewable energy, access to finance through private sector support, economic development through infrastructure rehabilitation and/or expansion; etc.

Assessing the upper limits of blending as a percent of total EU development support in the current development cycle

The Commission proposed in 2001 an Agenda for Change that should lead, amongst others, to 'a higher share of EU aid through innovative financial instruments, including under facilities for blending grants and loans' as well as to 'an increased volume and share of EU aid to the countries most in need and where the EU can have a real impact, including fragile states' (Source: European Commission, Increasing the impact of EU Development Policy: an Agenda for Change, 2011). This raised the interest of the Reference Group managing this evaluation, which enquired as to the limit (% of total EU assistance) beyond which blending could create inconsistency between policy intentions and the instrument used. The quantification of the precise upper limits of blending as a percent of total EU development assistance is to the team's understanding going beyond the scope of this evaluation. Within EuropeAid, there are some internal estimates that blending as a share of total support may reach 8-10% of the total in the current 2014-2020 cycle. This represents an increase compared to the approximately 4% share in the previous development cycle 2007-2013. However, the extent to which specific countries or regions use blending will depend on the strategic appropriateness of the instrument which can differ across regions. Probably those regions that have more LMICs and MICs, such as the countries in the Neighborhood region, could use more blending than regions which have fewer MICs and LMICs. The upper limits of blending will depend on the role the EU will give to blending in MICs. This role will be influenced by two main factors: the policy priorities that EuropeAid attaches to MICs and the extent of co-granting, the EU grant not being the only grant in blending projects. (Source: Interviews with EU representatives in headquarters and in the countries visited).

I-1.2.2 The flow of development resources to DSF (HIPC) countries is boosted by blending

How many DSF countries have received blending finance?

DSF and PRGT countries:

In order to help low-income countries (LICs) with their debt management, the World Bank (WB) and the International Monetary Fund (IMF) have introduced in 2005 the Debt Sustainability Framework (DSF), which guides "*countries and donors in mobilizing the financing of LCIs' development*

needs"[20]. Under the DSF, Debt Sustainability Analyses (DSAs) are conducted regularly (every 1 or 2 years). They consist in (i) a 20-year projection of the country's debt burden; (ii) an assessment of the risk of external debt; (iii) and recommendations[21]. All the countries under a DSF are eligible to the Poverty Reduction and Growth Trust (PRGT), which is the IMF's concessional lending vehicle. The PRGT is effective since 1999 and has been reformed in 2010 with the approval of a new concessional financing framework. In 2016, 70 countries were involved in a DSF. PRGT-eligible countries were 77 in 2004[22] and 73 in 2015[23]. 37 of them were classified as LICs in critical needs of development aid in 2007. In 2014, 28 of them were classified as LICs.

Blending and DSF/PRGT countries:

Blending targeted PRGT-eligible low-income countries during the period 2007-2014. In 2007, out of the 37 PRGT-eligible low-income countries, 16 (or 43%) have received EU blending finance. In 2014, out of the 28 PRGT-eligible low-income countries, 10 (or 36%) received EU blending finance. The table provided below gives the full list of countries.

Table 17 - List of PRGT-eligible LICs (2007 and 2014) receiving blending finance

Country	LIC 2007	LIC 2014	Receiving blending
Bangladesh	1	0	1
Benin	1	1	1
Cambodia	1	1	1
Ethiopia	1	1	1
Kenya	1	0	1
Kyrgyz Republic	1	0	1
Liberia	1	1	1
Mali	1	1	1
Nepal	1	1	1
Niger	1	1	1
Sierra Leone	1	1	1
Tajikistan	1	0	1
Tanzania	1	1	1
Uganda	1	1	1
Uzbekistan	1	0	1
Zambia	1	0	1

Source: ADE on the basis of IMF data and of the inventory of blending projects

The EU has prioritized PRGT-eligible LICs with 'low' and 'moderate' risks of debt distress for its blending operations. Out of 16 countries having received blending finance, 7 presented a 'low' risk of distress and 7 a 'moderate' one.

20 https://www.imf.org/external/np/exr/facts/jdsf.htm

21 *Ibid.*

22 "As of March 2004, 37 countries, almost half of *the PRGF-eligible total of 77* had completed a full PRSP." (p. 26) http://www.ieo-imf.org/ieo/files/completedevaluations/07062004report.pdf

23 http://www.imf.org/external/np/pp/eng/2015/062415.pdf

Note: Data for 2007 and 2014 was not available

Table 18 - Number (and percentage) of PRGT-eligible LCIs receiving blending finance, by type of risk of debt distress

Risk of debt distress	Low	Moderate	High	In debt distress	N/A	Total
PRGT-eligible LICs receiving blending finance	7	7	1	0	1	**16**
%	43.75	43.75	6.25	0	6.25	**100**
Source: ADE on the basis of IMF data (2016 classification) and of the inventory of blending projects						

How much additional development finance resources (loans) these countries have obtained under the blending operations?

Half of the countries having received blending finance during the period 2007-2014 have been under IMF conditions (or PRGT-eligible) (see below table). They received 26% (or €0,46 billion) of total EU grants provided during the period 2007-2014. The closest approximate of the total amount of loans contracted during the period 2007-2014 for the 24 PRGT-eligible countries the team could arrive at with available data amounts to 5.7 billion euros, or 14% of the total amounts of loans of all blending operations included in the inventory. This number however includes the grants provided by other donors and recipient governments (for mixed-grants projects) and shouldn't therefore be understood as being loan-only.

Table 19 - EU blending finance provided to countries under IMF conditions

	Countries under IMF conditions receiving blending finance	LICs (2007)	EU blending grants	Total blending project loans
	Bangladesh	1	€14 128 000	€932 100 000
	Benin	1	€20 000 000	€33 000 000
	Bolivia		€7 945 000	€116 200 000
	Cambodia	1	€6 288 000	€90 200 000
	Cameroon		€6 900 000	€54 300 000
	Dominica		€2 140 000	€6 500 000
	Ethiopia	1	€7 500 000	€10 900 000
	Guyana		€30 050 000	€60 100 000
	Kenya	1	€50 000 000	€875 100 000
	Kyrgyz Republic	1	€17 488 400	€51 720 000
	Liberia	1	€14 800 000	€287 940 000
	Mali	1	€1 000 000	€249 000 000
	Mauritania		€1 626 791	€20 073 209
	Moldova		€100 725 350	€902 220 000
	Nepal	1	€2 407 500	€60 000 000
	Nicaragua		€57 750 000	€561 100 000
	Niger	1	€11 000 000	€19 000 000
	Sierra Leone	1	€2 500 000	€376 404 000
	Tajikistan	1	€14 400 000	€36 000 000
	Tanzania	1	€17 700 000	€86 800 000
	Uganda	1	€29 600 000	€471 400 000
	Uzbekistan	1	€8 248 000	€28 600 000
	Vietnam		€5 200 000	€51 000 000
	Zambia	1	€23 750 000	€314 250 000
Total	**24**	**16**	**€453 147 040**	**€5 693 907 209**
% in all countries receiving blending	**52,2%**	**34,8%**		
% in total EU blending grants			**26,4%**	
% in total project loans				**14,4%**

Source: ADE calculations on the basis of the inventory of blending projects (2007-2014) and on the basis of IMF and WB classifications

Total costs of EU blending projects contracted during the period 2007-2014 for the 16 LICs (2007 WB classification) - that are all DSF countries - amount to €4.2 billion, which represents 10% of the total costs of all blending operations included in the inventory of blending projects (see below table). EU blending project costs contracted during the same period for the six LICs that were classified as fragile states (2007 and 2014 WB classification) amounted to €1,1 billion, which represents 3% of the total costs of all blending operations. The EU grant share in the total project costs is 6% for LICs, hence slightly more than for all 46 countries together for which this contribution equals 4%. The closest approximate of the total amount of loans contracted during the period 2007-2014 for the 16 LICs (2007 WB classification) the team could arrive at with available data amounts to 3.9 billion euros. For the fragile states, the total amount of loans contracted amounts to €1 billion. This number however also includes the grants provided by other donors and recipient governments (for mixed-grants projects) and shouldn't therefore be understood as being loan-only. It also represents 10% of the total amounts of loans of all blending operations included in the inventory.

Table 20 - Total amount of loans and of EU contribution to total project costs – 2007-2014 (absolute and relative values)

PRGT-eligible LICs having received blending finance	LIC (2007)	Fragile states (2007)	LIC (2014)	Fragile states (2014)	Total project cost (€)	Total amount of loan (€)	Loans out of total project cost (%)	Total EU contribution (€)	EU contribution out of total project cost (%)	EU contribution out of loan (%)
Bangladesh	**1**	**0**	**0**	**0**	946 228 000	932 100 000	99	14 128 000	1	2
Benin	**1**	**0**	**1**	**0**	53 000 000	33 000 000	62	20 000 000	38	61
Cambodia	**1**	**1**	**1**	**0**	96 488 000	90 200 000	93	6 288 000	7	7
Ethiopia	**1**	**0**	**1**	**0**	18 400 000	10 900 000	59	7 500 000	41	69
Kenya	**1**	**0**	**0**	**0**	925 100 000	875 100 000	95	50 000 000	5	6
Kyrgyz Republic	**1**	**0**	**0**	**0**	69 208 400	51 720 000	75	17 488 400	25	34
Liberia	**1**	**1**	**1**	**1**	302 740 000	287 940 000	95	14 800 000	5	5
Mali	**1**	**0**	**1**	**1**	250 000 000	249 000 000	100	1 000 000	0	0
Nepal	**1**	**0**	**1**	**1**	62 407 500	60 000 000	96	2 407 500	4	4
Niger	**1**	**0**	**1**	**0**	30 000 000	19 000 000	63	11 000 000	37	58
Sierra Leone	**1**	**1**	**1**	**1**	378 904 000	376 404 000	99	2 500 000	1	1
Tajikistan	**1**	**0**	**0**	**0**	50 400 000	36 000 000	71	14 400 000	29	40
Tanzania	**1**	**0**	**1**	**0**	104 500 000	86 800 000	83	17 700 000	17	20
Uganda	**1**	**0**	**1**	**0**	501 000 000	471 400 000	94	29 600 000	6	6
Uzbekistan	**1**	**1**	**0**	**0**	36 848 000	28 600 000	78	8 248 000	22	29
Zambia	**1**	**0**	**0**	**0**	338 000 000	314 250 000	93	23 750 000	7	8
All 16 LICs (WB 2007 classification)					**4 163 223 900**	**3 922 414 000**	**94**	**240 809 900**	**6**	**6**
All 6 FS (WB 2007 and 2014 classifications)					**1 127 387 500**	**1 092 144 000**		**35 243 500**	**3**	**3**
All 46 countries receiving blending finance					**41 160 773 470**	**39 457 826 948**	**96**	**1 714 798 046**	**4**	**6**
Share 16 LICs in total					*10%*	*10%*		*14%*		
Share 6 FS in total					*3%*	*3%*		*2%*		

Source: ADE, on the basis of the inventory of EU blending projects and World Bank data for country classification

Note: The column 'Total amount of loan' is the sum of the 'total project costs' and the 'total EU contribution'. It includes the grants provided by other donors and recipient governments (for mixed-grants projects) and shouldn't therefore be understood as being loan-only

I-1.2.3 The advantages to the EU of blending as compared to all-grant other financial instruments and loan-only option

In most cases examined, there was no financial capacity to resolve the problems with all loan financing. This finding is based on the assessment of the special challenge table included in annex 1 below. This table includes a column *'loan-only option possible?'* that presents the findings emanating from the projects visited in the field as to whether a loan-only option could have been envisaged to finance the projects. It also proposes a ranking system to evidence whether the case for a grant was strong (A), moderate (B) or low (C). As further detailed in this table, the team could notice that in 24 out of the 32 cases examined, there was a clear case to use a grant. Blending has been used in the following typical cases:

- To meet the IMF concessionality requirement. Given the concessionality requirement from the IMF, a grant component was required to finance the road rehabilitation project (TRANS/RoadRehab/MD #29) and the public transport project in Moldova (TRANS/PublicTrans/MD #10). The EU ITF grants were directly instrumental in enabling the required 25% interest concessionality to be achieved for the water and sanitation project in Uganda (WASH/LVWATSAN/UG #27-28). Likewise, electricity projects in Benin and Togo – which are HIPC countries - needed to have a concessionary level to be accepted by IMF standards. This level was usually set at 35%. In Armenia, the proportion of grant has been dominated by the policy to comply with IMF-level conditions: the investment grants contributed mainly to increasing the scope of work rather than maximising a catalytic effect. There appears in the words of the EU delegation and others to have been an "open bar" for grants. As there is no quota -access to the grants is on a first come first serve basis- the IFIs and government borrowers have no incentive to reduce the use of the grants.
- To compensate for the low borrowing capacity of the beneficiary country or borrower: for instance, for the road rehabilitation project in Moldova (TRANS/RoadRehab/MD #29), the grant served to compensate the low borrowing capacity of both the municipality and the transport company.
- To compensate for the insufficient financial return of specific loss-making or innovative activities that have innovative public good features, such as rural electric sub-stations (ENER/PowerTrans/EG #31), sanitation investments which are structurally loss-making (WASH/PNA-ONEP/MA #30, WASH/IWSP/EG #14), the development of solar energy (ENER/O.SolarPlant/MA #15), the promotion of wind energy (ENER/Wind Farm/EG #32).
- To promote the development of unstructured and unattractive market segments having the potential for positive externalities, such as energy efficiency and renewable energy in Morocco and Jordan (ENER/SEFF/MA-JO #35) and in Kenya (ENER/Env.Credit lines/REG #43-44).

In two out of these 25 cases that focused on the West Africa electricity market (ENER/WAPP/REG #2; ENER/ERERA/REG #3), it was however not fully clear why this all-grant support was funded by a blending facility (ITF) versus the EU's (all-grant) regional envelope.

In four cases out of 32 examined, the case for the use of grants was not or less strong. Interviewees met noted that the financing of the feasibility study for the container terminal expansion could probably have been financed from the hugely loan financing for construction works (TRANS/PortWalvis/NA #4). Likewise, interviewees noted that the Small municipalities water project in Armenia (WASH/SMWP/AM #33), which deals with town water supply, could probably have been financed through a loan. Finally, while interviewees met for the metro rehabilitation project in Armenia (TRANS/MetroRehab/AM #9) noted that TA could have been provided as loan, they also stressed that attention and compliance to the difficult conditionalities

might have been less. For TRANS/PAPN/CG #42, the debt service would have been too high to enable PAPN to bear the loan without an IRS but it is not clear to which extent the project would not have happened without the IRS, as the beneficiary mentioned that the loan could have been borrowed on the local market (ECCAS) at better conditions.

Furthermore, blending has offered advantages compared to all-grant options. The qualitative and quantitative assessments made under JC1.1 and under this JC (I.1.2.2) show that blending enabled to resolve 'specific challenges', to engage in a growing number of MICs and to boost financial resources for LICs. More generally, blending enabled the EU to support major infrastructure that it would otherwise not have been able to finance. All field visits have shown that blending has been used to support major infrastructure-related projects (apart from Colombia where blending has been used to finance technical assistance to accompany AFD credit lines). For instance, in Armenia, blending, by supporting nationally important infrastructure has helped boost economic performance beyond what the debt carrying capacity could sustain and sent a message to an increasingly vulnerable Armenia that they were not alone. One should bear in mind that as countries grow and become less poor, infrastructure improvements progressively take centre stage.[24] It is estimated that the infrastructure investment requirements in the developing world are around US$ 1 trillion p.a.[25] covering energy, transport, and water/sanitation. This hugely increases the number and size of development projects, as well as obviously the external financing requirements.[26] The inventory of projects shows that with the €1.7 billion provided as grants for blending, economic development projects worth almost €40 billion have been implemented. Furthermore, supporting major infrastructure with pure grants does not generally seem realistic. If pure grants are the only instrument available to a development agency then that agency is unlikely to be significantly involved in mega infrastructure projects. Without blending the EU could not engage at scale and support to such large infrastructure projects would have to left to other agencies such as the IFIs, the WB etc. With blending the EU was able to support the construction of the full road to from A to B and not only the first kilometres. Without blending, support to these projects would have absorbed a huge proportion of the EU development assistance. The Evaluation of the EU support to transport sector in Africa also shows that blending enabled to mobilise additional funding for transport sector projects in Africa that may not have otherwise gone ahead, but the fact that conventional measures of financial viability are low in many situations in Africa implies that these projects are likely to continue attracting only limited private sector participation. (Source: inventory of blending projects; project documentation and interviews held during the field visits, Evaluation of the EU support to transport sector in Africa (Final report, 2016); ODI, Topic Guide, Blended Finance for Infrastructure and Low Carbon Development. September 2013).

[24] This includes economic infrastructure (energy, transport, utilities, ICT) as well as social infrastructure (health, education)

[25] Source ODI; Topic Guide, Blended Finance for Infrastructure and Low Carbon Development. September 2013.

[26] This focus on economic infrastructure underpins a renewed global focus on this type of financing, including for example initiatives currently underway in Europe (the EC and EIB Project Bond Credit Enhancement Initiative to serve an estimated €2 trillion infrastructure financing requirement), Asia (the Asia Infrastructure Bank), India, Latin America, a number of Green Infrastructure Finance approaches and others.

Annex 1 – OBJECTIVES AND BLENDING CHALLENGES OF THE 32 VISITED PROJECTS

This table reflects the analysis made by the evaluators on the basis of triangulated data originating from project documents and interviews with a range of key stakeholders in headquarters and in the field.

This table shows, beyond the overall project objectives, the 'specific challenge' faced by the project for blending to solve and how blending contributed to overcome it for the 32 projects examined in depth. It also examines the degree of justification for grant funding and whether a loan-only option could have been envisaged to finance the projects. On the degree of justification for grant funding, it proposes a ranking system to evidence whether the case for a grant was:

- Strong: Ranking A: where there are strong reasons for application of a grant (where it is clear that non-concessional loan would not have been possible due to blocking or other factors):
- Indicative but not conclusive: Ranking B: where in the balance of evidence a grant is justified but there is still doubt;
- Weak: Ranking C: where the case for a grant is not clear and there are reasons to believe that the project could have been financed by a non-concessional loan;

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
ENER/C.Intercon/NA-ZM #1	**To secure energy supplies for Namibia and be energy trader in the Southern African Power Pool (SAPP)**	**To switch electricity source** (climate policy i.e. renewables, social policy i.e. rural electrification) – [IRS]	The initial proposal to improve Namibia's security of power supply was to build a thermal power station on the coast: by introducing a blending grant, an alternative project design avoiding thermal power generation became available: accessing surplus Zambian hydro power (renewable). Project objectives have been delayed due to defective connections in Zambia (and a perennial 'pinch point' in Zimbabwe) but work is currently ongoing (with EIB	**Ranking: A** The AITF grant of €15M was disbursed as an up-front IRS which allowed a reduction of the average retain tariff by 0.5% and aggregate transmission tariff of 1.4%. The actual IRR is 5.4% (i.e below expected) with a payback period of 18 years; without the IRS this IRR would have been 5.2%	**No** Given that the expected ERR has not been achieved the loan-only option was not viable (at least for the time being; when/if the defective connecting lines have been fixed and the CLI is carrying

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
			support) to resolve the distribution line problems in Zambia. In terms of the blending additionality criteria the CLI project targeted the following objectives: a) economic; b) financial; c) social; d) project quality and standards; e) innovation; and f) environmental.	with a payback period of 19 years.	at higher capacity maybe the loan-only option might be credible?)
ENER/ WAPP/R EG #2	**To establish a regional electricity market in West Africa**	**To update the WAPP Master Plan** (through financing an updated regional master plan aiming at judicious development and realisation of key priority energy infrastructure projects) [TA]	The TA funded a study conducted by Tractebel which updated the West African Power Pool (WAPP) Master Plan. This study is widely used and is highly valued by all stakeholders met as the cornerstone for a regional market. The regional energy market is however not yet really operational for a variety of reasons, including the lack of energy supply.	**Ranking: B**	**No**
				All stakeholders met converged in saying that donor grant funding was required for revising the WAPP master plan; it would have been difficult to fund through ECOWAS' budget or contributions from its Member States. It is however not fully clear why this all-grant support was funded by a blending facility (ITF) vs. the EU's (all-grant) regional envelope.	
ENER/E RERA/R EG #3	**To foster regional integration in the energy sector in West Africa**	**To establish the key missing element, a well-functioning regional regulatory authority (ERERA)** (through financing the first regulatory activities of this new body) [TA]	The funding was intended to allow the ECOWAS Regional Electricity Regulatory Authority (ERERA) to implement its first regulation activities. ERERA has indeed initiated and completed a series of activities. However, several have not yet been launched or completed. ERERA suffers essentially from lack of political commitment from ECOWAS Member States to this regional regulatory authority and from	**Ranking: B**	**No**
				All stakeholders met converged in saying that donor grant funding was required for establishing this regional regulatory authority and for its activities in the first years of operations; it would have been difficult to fund through ECOWAS' budget or contributions from its Member States. It is however not fully clear why this	

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
			the absence to date of an effective energy market which it would be intended to regulate.	all-grant support was funded by a blending facility (ITF) vs. the EU's (all-grant) regional envelope.	
TRANS/ PortWalvis/NA #4	**To reduce transport costs in Namibia and neighbouring countries**	**To complete revision of feasibility studies for the container terminal expansion** (by solving major regional transport bottleneck) [TA]	The study gave options for viable expansion. The specific challenge (i.e. reducing transport costs in Namibia and neighbouring countries) continues to be relevant although AfDB has stepped in to finance works currently in progress due to the withdrawal of the originally identified IFIs after disagreement on procurement processes for contractor selection. Given that the port capacity expansion will be completed before any of the transport linkage interventions are even started (see info on ITMP below) the specific challenge will remain unresolved. In terms of the blending additionality criteria, the Walvis Bay project targeted the following objectives: a) economic; b) financial; c) project scale and d) environmental	**Ranking: B** The output of the AITF grant was an 'Economic market and Financial feasibility study' costing 0.25% of total capital costs which were due to be financed by KfW, AFD and Namport (but these IFIs withdrew due to procurement irregularities and AfDB stepped in).	**Yes** This grant-funded study was only one component of project preparation. Given the claimed robust economic justification for investment it is credible that this study (and other preparatory components) might have been financed from the huge loan financing for construction works
TRANS/ MasterPlan/NA-REG #5	**Preparation on Integrated Transport Master Plan for Namibia**	**To identify potential investments in transport infrastructure in SADC** (4 regional corridors and ports) [TA]	The ITMP has provided a 'shopping list' of potential infrastructure projects mainly in the road and rail sub-sectors. It has not been endorsed by cabinet and has been to some extent 'overtaken' by the ongoing preparation of the 'Master Plan for development of an international logistics hub for SADC countries in the	**N/A** This was a grant-funded study/preparation.	**N/A** Subsequent infrastructure investments could, potentially, be loan-only but preparatory works for identified

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			Republic of Namibia'. There is as yet, no uptake on identified, prioritised interventions although there are plans to establish a secretariat for actioning of the logistics master plan (after formal GRN approval) to be supported by KfW and JICA. At that stage financing options for investment may be considered. In terms of the blending additionality criteria the Namibia TMP project targeted the following objectives: a) economic; b) project scale; c) project quality and standards; d) sustainability. However, given that support consisted only of grant funding of studies which may or may not be taken up, realisation of the stated objectives remains pending.		interventions have not yet gone ahead
TRANS/MetroRehab/AM #9	**To improve mass transport in the capital** (by rehabilitating a poorly performing metro system)	**To commercialise and modernise management of the metro** (making the system safer, more energy efficient, cheaper and providing a better service) – [IG]	The challenge to commercialise and modernise the management of the metro has been met through all the measures foreseen (safety measures, energy efficiency, productivity increases, conditionality induced doubling of the tariff, improvement in the standard of many carriages, introducing consumer orientation and commercialisation in the public utility).	**Ranking: B** The metro project TA grant was able to mobilise external expertise not available in Armenia to design a prioritised programme of rehabilitation. It could also be argued that the grant, through conditionality, facilitated institutional advances such as the doubling of the tariff and reduction in over-manning. It could be argued that the TA could also have been provided as loan. But it is likely that the attention and compliance to the difficult conditionalities might have been less.	**Yes/No**

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
				The investment grant expanded the scope of the works rather than directly addressing a special challenge.	
TRANS/PublicTrans/MD #10	**To improve public transport services in the capital** (by upgrading Chisinau's trolleybus fleet which is old)	**To overcome the lack of borrowing capacity of the beneficiaries** (finance new trolleybuses -around 1/3 of the fleet- and restructure the trolleybus company) - [IG]	Before the project, the Transport company had 328 electric trolley buses, with 80% of the fleet obsolete. Now, 50% of the fleet is new (102 financed through the project, and additional 80 buses not financed by the project). The technical requirements associated to the contract regarding the trolley buses have contributed to improve the quality of the services provided to the population, including in terms of comfort (seats, noise, temperature, greater capacity) and accessibility (for disabled people).	**Ranking: A**	**No**
				A grant was needed for the project to work and the NIF was the only source of grant funding available for the transport sector. The grant served to compensate the low borrowing capacity of both the municipality and the transport company.	
WASH/IWSS/MD #11	**To improve living conditions and reduce health risks for the population of the capital**	**To contribute in having a feasibility study conducted in order to prepare the design of an investment programme in Water and Sanitation project (another blending project).** [TA]	Based on the Feasibility study for improvement of Water and Sanitation Systems in Chisinau, several improvements took place in the regulatory framework. A new law on water supply was elaborated, the tariff settings became more independent from political involvement, and the role of the National Agency for Energy Regulation (as independent regulator in water sector) has been increased. The project was determinant for the design of the ongoing water project (EUR 61 million, including a EUR13.4 million NIF grant)	**Ranking: A**	**No**
				The water company did not have the capacity to finance feasibility studies. The NIF grant was, at that time, the sole alternative to have the necessary funding resources for the water sector to have the feasibility study financed.	

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
IND/SME Facility/REG #12	**To finance SMEs** (in risky economies)	**To reduce perceived risk and open up lending to risky sectors** e.g. agriculture by risk sharing and professionalising risk management [TA/Loan guarantee]	The SME FF project used grants to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions and leasing companies to finance SMEs, which hitherto they had avoided. Not only was lending to SMEs increased, but also sectors which had hitherto been neglected as they were considered too risky e.g. agriculture and agri-processing were included and experienced improved access to finance. In terms of blending additionality criteria, the SMEFF achieved specific a) financial benefits b) economic benefits c) innovation (risk sharing and SME lending) and d) sustainability benefits.	**Ranking: A**	N/A The objective is to provide an incentive to financial intermediaries to work with SMEs (they would not pay to get access to the incentive), without increasing the cost for SMEs.
WASH/KotaykSW/AM #13	**To improve management and disposal of waste** (by establishing a modern landfill facility)	**To encourage EU standards for waste management [IG]** (the project addresses a clear public good and also includes reduction in GHGs) – [IG]	The Kotayq solid waste management project was designed to demonstrate the applicability of EU standards for landfills. In principle the concept had the potential to use a grant element to address an important challenge. However the project design did not take into account that the enabling environment in terms of strategy and stakeholder consensus was not in place and the project has not yet started. The particular financing scheme of allowing the municipality to become the sub-borrower is innovative and potentially risky but was	**Ranking: B** Economically and environmentally there is a good case for early action which could merit the grant.	**No** A pure loan would not have worked as the solid management sector is far from being financially viable.

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
			found too cumbersome and difficult to implement and eventually it was abandoned.		
WASH/IWSP/EG #14	**To improve water sanitation services** (In the densely populated Nile Delta)	**To improve capacity of local utilities and break the viscous circle of poor performance and poor cost recovery** (in terms of project management and operations) – [TA]	The IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff. That is, it allows service provision to be improved first and then once that is in place, the expectation is that it will be easier to raise tariffs. At the same time the TA aims to improve the management and performance of the utilities because it was recognised that poor performance was not only an investment issue but also a management one. The performance of the sector depends on decentralisation of operations to the governorate level which is a major policy aim of the project and supported by the grant through capacity development (including systems and procedures and legislative changes) In terms of the blending additionality criteria the IWSP project targeted the following objectives: a) financial; b) sociasl; c) project scale; d) project quality and standards; e) sustainability and f) environment	**Ranking: A** Waste water investments in this region of Egypt cannot in the short to medium term sustain fully commercial lending due to political delays in stepping up tariffs and inadequate utility performance.	**No** The project was one of the first to use loans: up to that point the majority of municipal waste water services were pure grant financed. It was thus considered too large a step to move to fully commercial (non-concessional loans).

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
ENER/O. SolarPlant/ MA #15	**To generate renewable energy** (by building the world's biggest solar plant in three phases (Noor I, II, III)	**To overcome a (blocking) tariff distortion** (by reducing the price of a KW of solar power to that of a KW of thermal power) – [IG]	The project supported the development of the solar industry in Morocco (construction of Noor I), in line with the Moroccan Solar Plan. The grant was used to finance MASEN's minority equity participation in the Solar Project Company (SPC) (€17m) and to reduce the debt of the SPC (€13m). It enabled a reduction by 30% of the electricity production costs resulting from the solar technology (from 0.32 USD/KWh to 0.23 USD/KWh).	**Ranking: A**	**No**
				MASEN aimed for the least cost solution; a loan-only option would not have been sufficiently attractive. Besides, equity financing could only be financed through a grant, and MASEN was of the opinion that it could not have had access to a grant of this size (€30 million) through other sources. IFIs and beneficiaries met were of the opinion that without the NIF grant the project would have materialised but would have been more expensive for MASEN and end-users.	
MULTI/ SustDev/ CO #19	**To facilitate access to long-term financing, especially for intermediary and fragile cities**	**To produce pre-investment studies and institutional strengthening [TA] & investment projects [AFD and IDB loans]** (by means of institutional strengthening of FINDETER and municipalities)	The project is enhancing investments in urban areas through a comprehensive approach fostering economic development and social inclusion, and contributes to reduce geographical disparities. It has a special focus on cities where poverty is acute. The grant subsidy element has been used to respond to a demand for TA from FINDETER that emerged within the framework of the credit line awarded by the AFD to this institution. It supports FINDETER in its mission through institutional strengthening and the financing of pre-	**Ranking: B**	**No**
				This is not a 'classical' blending project. It concerns technical assistance to accompany a credit line from the AFD to FINDETER. In an upper-middle country like Colombia where the AFD cannot recourse to own funds to finance large-scale technical assistance, the LAIF was the only possibility for the AFD to have access to grant funds to finance such TA operations at a large scale[27]. The AFD credit line to FINDETER however pre-existed the TA financed through LAIF.	

[27] AFD usual TA budget reaches between Euros 200.000 – 300.000

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
			investment studies for urban development in various cities.		
WASH/IWRM/CO #20	**Support the implementation of the IWRM sector policy**	**To facilitate water policy implementation** [TA]	The subsidy element has been especially used to finance the pilot project of Lake Tota, which enabled the implementation of public policies at local level that remained rather poor until now. This pilot project has been the first participatory exercise in the country on water management processes, which can generate knowledge on different key themes (i.e. governance and management of the water sector)	**Ranking: B** This is not a 'classical' blending project. It concerns technical assistance to accompany a budget support loan from the AFD -provided at market conditions- that supports the implementation of the Colombian integrated water management policy. Without the TA, the AFD and CAF were of the opinion that they would not have considered the loans in support of the IWRM policy that is envisaged as a package including loans, dialogue at sector level and TA.	**No**
TRANS/Airport/MZ #25	**Construction of air-side infrastructure to resolve safety issues**	**Facilitation of policy dialogue** (for capacity building for management, operations and maintenance) [TA/credit facility for construction]	Blending has hardly resulted in facilitation of policy dialogue but contributed to the preparation of operations and maintenance plans for the facilities delivered by the project through consultancy services. These plans are intended to form the basis to be taken as a structure for longer term management In terms of the blending additionality criteria the Maputo Airport project targeted the following objectives: a) financial; b) project timing; c) project quality and standards; d) sustainability	**Ranking: B** AFD (the IFI financing capital investment) had no budget provision for grants for TA and thus was dependent upon AITF funding.	**No**

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
TRANS/Corridor/MZ #26	**To fulfil traffic demands of Mozambique and neighbouring countries and contribute to wider socio-economic development**	**To inject a commercial dimension** (by creating a PPP and enabling loan finance under HIPC regime) – [IRS]	This challenge was not addressed by project outcomes. The port dredging component has delivered expected outputs, albeit with delays. The rail component, which was intended to be a key project to catalyze private sector investment, suffered implementation delays and did not deliver intended benefits because of the structure of the Concession Agreement and because of ineffectual supervision. The poor performance of this component, which contributed to the termination of the concession, coupled with the high profile of the public-private partnership (which was closely monitored by business and politicians, not only in Mozambique) has led to negative perceptions of such partnerships in Mozambique. In terms of the blending additionality criteria the Beira Corridor project targeted the following objectives: a) economic; b) financial; c) social; d) project quality and standards; e) innovation (but only as a means of facilitation of a trail-blazing concession agreement for rail line operation under a HIPC regime]; f) sustainability; g) environment	**Ranking: A** The grant (€29M) represented 4.7% IRS which was necessary for compliance with the HIPC requirement of 35% degree of conditionality	**N/A** Not clear whether this loan-only could have been an option.

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WASH/LV WATSAN /UG #27-28	**To improve WATSAN services (in Kampala with extension to Lake Victoria basin) by means of combination of physical interventions and capacity building**	**To finance a much larger project by loans in a DSF constrained country, and to ensure innovation in managing the water supply chain** (by means of TA & IRS)	The EU ITF grants were directly instrumental in enabling the required 25% interest concessionality to be achieved. The use of part loan funding also enabled this project to be much larger (4-5 times) than previous WATSAN projects in Uganda. Furthermore, the approach introduced via the diagnostic and feasibility studies managed the entire water supply chain from the catchment area to final disposal of treated waste water in Lake Victoria. The larger project size and special approach enabled all areas of municipal Kampala to be covered – and about 16 out of 21 are estimated to be poor areas. In terms of blending's additionality criteria, the grant achieved specific a) financial benefits b) social benefits c) project scale and quality (standards) benefits and d) innovation benefits.	**Ranking: A** All loan finance was not possible or affordable under the DSF restrictions and TA was needed to establish innovation in the water management approach.	**No**
TRANS/ RoadRehab/MD #29	**To improve Moldova's national road infrastructure**	**To provide the necessary funds in order for the project to comply with IMF concessionality** (sector financing and institutional strengthening to establish stable	The investment grant contributed to increase the scope of the work (an additional segment of the road), rather than having a catalytic effect. Specific conditions were also attached to the project to ensure the implementation of the reforms. As a result, reforms progressed well. They include the approval of the Land Transport Infrastructure Strategy, replaced in 2013	**Ranking: A** A grant component was required for the Moldova Road rehabilitation project, given the concessionality requirement from the IMF (35%). Furthermore, the	**No**

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
		financing mechanism) [TA/loan]	by the Transport and Logistic Strategy for 2013-2022; an increase of the financing of the Road Fund to ensure of an appropriate maintenance of the rehabilitated roads; a restructuration of State owned enterprises responsible for the maintenance services; and the introduction of performance based contract.	sector was suffering from chronic underfunding suffer due to lack of budget resources.	
WASH/PNA-ONEP/MA #30	**To improve sanitation services and the quality of the receiving environment in Morocco** (through sanitation investments in different regions in line with the national sanitation policy)	**To support utilities in the planning and implementation of sanitation investments [TA]** (extension and/or refurbishment of sewerage and wastewater treatment systems and provision of accompanying measures) - [TA]	The project is supporting the implementation of the National Sanitation Programme in around 30 middle-sized urban centres throughout the country. The IFIs and the ONEE were of the opinion that the grant subsidy element enabled the ONEE to deploy sufficient TA to supervise construction works and to access punctual quality TA on strategic matters (e.g. management of sewage sludge).	**Ranking: A** Sanitation is a structurally loss-making activity (with significant operating costs and tariffs below full-cost recovery) that requires grant support. IFIs and beneficiaries met were of the opinion that the project would have materialised but would have been different in scope and content with less centres covered and less technical assistance provided.	**No**
ENER/PowerTrans/EG #31	**To increase and improve access to electricity**	**To ensure the project incorporated sub-stations that were in rural areas with**	The energy transmission project followed the investment priorities of a national master plan. The TA was provided to ensure a high level of project management	**Ranking: A**	**No**

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	(in the more remote, unserved regions of the country)	**poor supply and not among the most profitable for the utility** (changing normal practice so it was more consumer orientated) – [TA/IG]	given the unprecedented scale and complexity of the project.	The investment grant served to compensate for the low return on rural sub-stations and thus could be seen to have had a pro-poor impact	
ENER/Wind Farm/EG #32	**To increase energy generation** (both to improve the energy mix and security of supply)	**To demonstrate the viability of wind energy** (introducing higher quality construction and environmental considerations and demonstrating that wind can be integrated into the electricity network and generate both power and profit) – [IG]	The El Zayt wind farm is the largest wind farm in the region. The project has created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector. In terms of the blending additionality criteria, the Al Zayt project targeted the following objectives: a) economic; b) financial; c) social; d) project scale; e) project timing; f) project quality and standards; g) innovation; h) sustainability and i) environment	**Ranking: A**	**No**
				The 8% investment grant although low brought the price of energy close to the price of conventional generation. The blending project has played a role in triggering and sustaining an evolution in the funding of wind energy from use of pure grants (pre 2007) to concessional loans (through blending) to mobilisation of private sector finance. The grant was timely – subsequent wind farm projects are going ahead with non-concessional loans but at the time of preparation of this project viability had not been demonstrated	
WASH/SMWP/AM #33	**To improve water supply and sanitation services** (by upgrading the facilities, extending supply, building sanitation works	**To commercialise and modernise management of utilities** (reducing regional disparities) – [TA/IG]	The small municipalities water projects had a demonstration effect through the waste water treatment plants and the leakage reduction on water supply. The grant subsidy also allowed the utility to address regional disparities in access to water services and to bridge the gulf in investment that occurred since the	**Ranking: B**	**Yes**
				The case for the use of grants is not strong for town water supply and it is possible that loans alone could be	

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	and improving operations)		collapse of the Soviet Union. The rehabilitated infrastructure enabled significant service improvements to take place. The replicability prospects however are not assured as the institutional progress on cost recovery in the sector is not yet secured.	a feasible option. For small-scattered settlements there is a better case for grants due to low affordability, high unit cost and the need to lessen regional disparities. The new KFW/NIF financed project on community infrastructure facility that directs grants to water supply at the village level addresses geographic disparity more directly than this small towns project. The case for providing grants for waste water is stronger as it has stronger public good benefits in for example reducing pollution to Lake Sevan. A full commercial loan taken by the municipality would have overburdened it and is likely to have led to a decision not to go ahead. There is also a need to develop, test and demonstrate viable small scale waste water systems for small towns	
ENER/SEFF/MA-JO #35	**To promote energy efficiency and the use of renewable energy sources**	**To provide incentive for the prioritisation of sustainable energy investments over other investments opportunities/ needs** [Grant support]	The project is promoting the emergence of the renewable energy market in encouraging private investments in renewable energy and energy efficiency. This segment was until then relatively unstructured and not attractive in Morocco. The grant subsidy element is providing financial incentives to PFIs (three in total in Morocco – one credit line extended to BMCE so far) and investment incentives to sub-borrowers. It represented a key commercial element for BMCE to move on with the project	**Ranking: A**	**No**
				BMCE representatives in Morocco noted that the project would not have materialised without the NIF grant because the product was considered as being too expensive.	

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			and for final beneficiaries to prioritise energy efficiency and renewable energy investments.		
BANK/EFSE/MC #36	**To finance SMEs** (in risky economies)	**To attract private capital for financing SMEs by providing a risk cushion and building trust towards the fund among private investors** – [risk capital]	C-shares (which include blending funds) have already attracted 400M€ of A-shares (private funds). 125,000 sub-loans have been disbursed in 2014 (31% in agriculture). In terms of the blending additionality criteria, the EFSE grant achieved a) financial benefits (mobilising more money) b) economic benefits c) project scale and quality benefits d) innovation benefits and e) sustainability benefits.	**Ranking: A** Risk capital from donors such as the EU was necessary to cover risk and attract private capital	**N/A** The EFSE Fund at highest level (i.e. beyond country level) used grants to invest in C-shares, thereby providing comfort (a risk cushion) to mobilise private capital for financing MSME and housing loans.
ENER/Env.Credit lines/REG #43-44	**To finance renewable energy and energy efficiency on a small scale** **(in risky economies)**	**To equip banks and smaller companies with the technical and financial know-how and risk management techniques to enable RE and EE projects to be financed – for the first time – by the banking system**	The EU grant was directly instrumental in increasing banks' confidence by improving their risk assessment skills of the financial intermediaries for EE and RE loans, through trainings provided to the staff, and by providing the obligatory technical report that formed part of the loan application. The grant also provided technical insights to SMEs in order to make the projects bankable. In terms of the blending additionality criteria, the SUNREF project achieved a) climate objectives b) financial objectives	**Ranking: A** Renewable energy and energy efficiency projects are at an early stage and not yet financially self-sustaining. The banks are not willing yet to cover the full cost of the TA. There were limited other sources for TA from the IFI.	**No**

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			c) innovation objectives and d) project scale and quality objectives.		
TRANS/PAPN/CG #41-42	**To enhance regional integration by increasing the capacity of the Port to handle imports to and exports from Congo and surrounding countries.**	**To make the project affordable for the beneficiary country and to provide the necessary funds for the needed institutional capacity strengthening.** (by providing IRS to compensate for the difference between the low FRR and the high ERR, and by funding the reinforcement of institutional capacities) – [IRS/TA]	The quality of the project reviewed was high. The extension of the dyke and the construction of the external breakwater were completed in August 2013, the water works were completed in September 2013, the extension of quay was completed in April 2014 and the electricity works in May 2014. The dredging conducted to deepen the basin has also been finished. The TA grant contributes to the quality of the project by strengthening the institutional capacities of the PAPN.	**Ranking: C** for the IRS **Ranking: A** for the TA	**Yes/No**
				For the IRS, there is a justification because without the IRS, the debt service would have been too high to enable PAPN to bear the loan. However, the justification is weak: it is not clear to which extent the project would not have happened without the IRS, as the beneficiary has mentioned that the loan could have been borrowed on the local market (ECCAS) at better conditions. For the TA, it has been mentioned that the EU grant was the only option, as the IFI has limited grants available for Congo, a middle-income country. The TA has allowed IFIs to impose standards that would otherwise not be implemented by the beneficiary	

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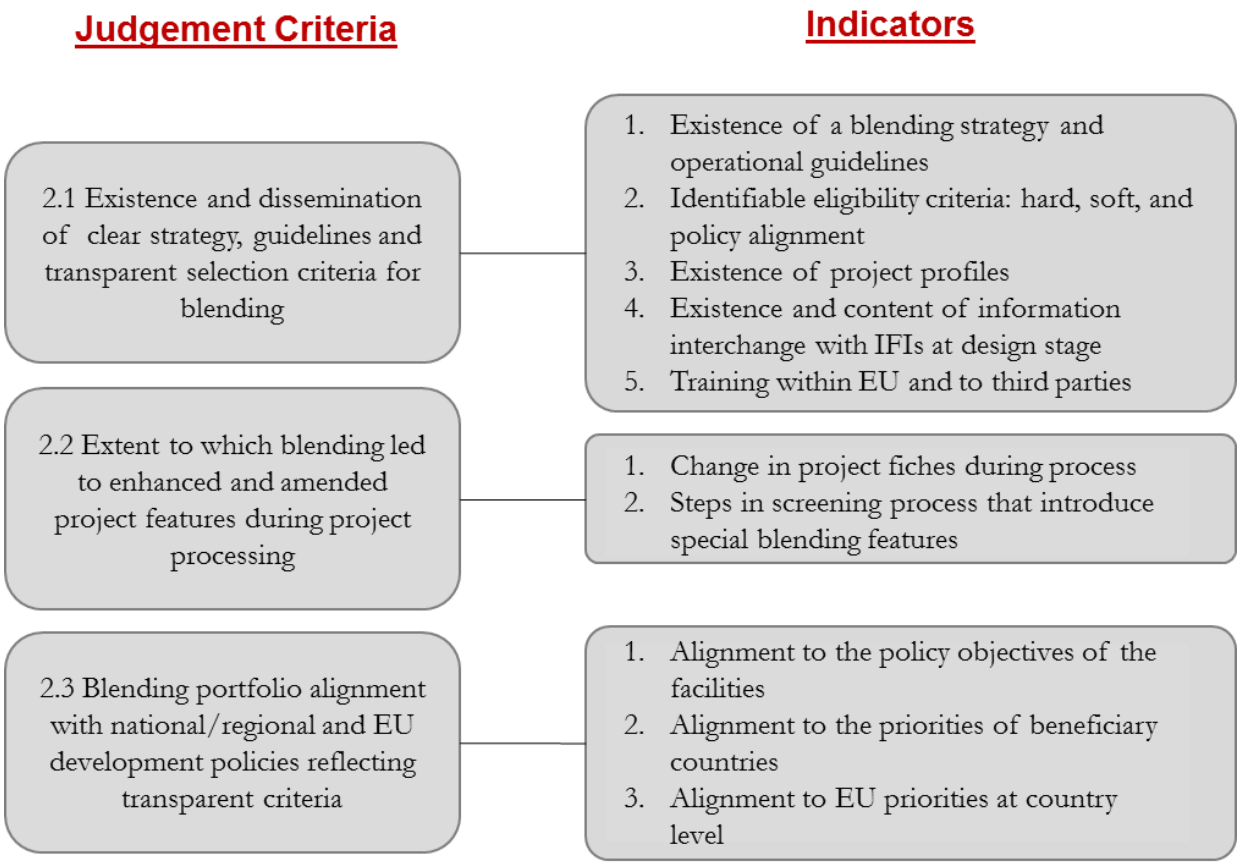
NON-SAMPLE PROJECTS					
Georgia Batumi Water	**To reduce non-metered water loss (from faulty pipes – estimated to be up to 80% of water) and provide 24/7 water supply to all households**	**To address: a) the water sourcing problem outside the municipality of Batumi and beyond the jurisdiction of the municipal water company and b) the financial issues arising from lack of water meters.**	The specific challenges have been successfully resolved by the blending grant (interview findings) In terms of the blending additionality criteria, the grant achieved a) financial benefits and b) innovation (by introducing individual water meters)	**Ranking: B** There are indications that the grant was essential but this could not be verified	**No** There was no financial capacity to resolve the problems with all loan financing.
Georgia Power transmission	**To build main power lines and connect to the Turkish grid with a sub-station**	**To address complex technical management issues (within affordability and debt constraints) and deal with a pressing environmental problem**	The specific challenges have been successfully resolved by the blending grant (interview findings) In terms of the blending additionality criteria, the grant achieved a) environmental benefits and b) economic benefits	**Ranking: B** There are indications that the grant was essential but this could not be verified	**No** There was no financial capacity to resolve the problems with all loan financing.
Georgia Enguri Hydro	**To restore a major hydro renewable energy facility and repair the dam wall in order to raise safety standards and reduce risk**	**To resolve downstream and access problems which are beyond the jurisdiction of the HPP entity but which prevent the Enguri Hydro**	The specific challenges have been successfully resolved by the blending grant (interview findings) In terms of the blending additionality criteria, the grant achieved a) sustainability benefits b) environmental benefits and c) economic benefits	**Ranking: B** There are indications that the grant was essential but this could not be verified.	**No** There was no financial capacity to resolve the

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
		Power Project from working normally.			problems with all loan financing.
Kenya Lake Turkhana Wind	**To boost electricity generating capacity and switch the mix away from oil-fired power stations to renewable energy**	**To fill a financing gap for mezzanine finance as the financial parameters could not sustain more debt finance nor more equity (earnings dilution risk)**	The ITF grant provided tailored quasi-equity financing which avoided adding to the interest burden and also avoided earnings dilution resulting from issuing more shares In terms of the blending additionality criteria, the grant achieved a) financial benefits b) environmental benefits c) social benefits and d) economic benefits and e) timing benefits.	**Ranking: B** There are indications that the grant was essential but this could not be verified.	**No** A loan could not have been sustainable financially due to insufficient cash flow for more debt servicing and earnings dilution risk.
Benin-Togo Power Rehabilitation project (LCO component)	**To rehabilitate the electric transmission networks of Togo and Benin**	**To attain sufficient level of concessionary finance for such large rehabilitation project of transnational backbone network infrastructure** [IRS]	The overall financing scheme permitted to conduct this rehabilitation project, which is essential for reliable energy supply in the next 20 years in both Togo and Benin.	**Ranking: A** Both Benin and Togo are HIPC countries and have hence limitations in terms of contracting additional debt; concessionary finance is required.	**No** The project required grant funding in part or in full.
Benin Atlantic project	**To provide reliable electricity to a major dormitory city and 81 rural villages of that province**	**To attain sufficient level of concessionary finance for the entire project, and more specifically to include a rural**	The significant investment grant [20M€ out of 58M€] permitted to launch this overall project (financial additionality) and to include a number of rural communities (social additionality). The project is about to start.	**Ranking: A** Benin is a HIPC country, which hence requires concessionary finance. The urban component required a certain level of concessionality to be	**No** The project required grant funding in part or in full.

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	FIELD VISIT FINDINGS on how the challenge has been met	JUSTIFICATION FOR A GRANT A: strong B: moderate C: weak	LOAN-ONLY OPTION possible?
		component [Investment Grant		economically viable (according to interviews) but this is primarily the case of the -much less profitable- rural component which could be included on the basis of the ITF grant.	

2 EQ 2: Alignment

Has the EU pro-actively guided the pipeline of projects in order to align the portfolio with policy targets?



2.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

1 Review documents to check whether the tools to guide IFIs to the right blending projects were there: ▪ Were there criteria about projects, countries and sectors? ▪ Did these criteria reflect the policies that are relevant, including Public Investment Programmes (PIP), Multi-annual Fiscal Framework (MFF) and Debt Sustainability Frameworks (DSF)? ▪ Were there project profiles and a central database to exchange blending project information?
2 Review training courses material and use IFIs and EUD interview findings to: ▪ Analyse whether guidance was active ▪ Assess whether this guidance was aimed at all IFIs in a consistent manner ▪ Assess whether the IFIs felt that the type of projects eligible for blending were clearly understood at all levels in the project teams within the IFI ▪ Assess whether the EUDs also felt that they understood clearly the type of projects eligible and suitable for blending
3 Using the minutes of the Technical Assessment Meetings (TAMs), the team will: ▪ Analyse whether the discussion caused project features to change – for example by adding poverty alleviation features or boosting access to finance (A2F) rather than merely providing a line of credit ▪ Tabulate the detected changes by category/type and quantify
4 Assess the degree of alignment of the projects examined in detail during the field visits to EU policies and national priorities: ▪ Check the coherence to the policy objectives of the facilities ▪ Check whether the projects visited during the field visits were aligned to the national priorities as expressed in government policies/programmes ▪ Check whether the projects visited during the field visits were aligned to EU priorities at country level as expressed in the CSPs/NIPs. ▪ Analyse obvious deviations

Rationale for the EQ:

Blending is designed for a limited set of specific circumstances defined by project, country and sector characteristics. It is essential that these blending eligibility parameters are clearly expressed, explained and widely disseminated to those generating the pipeline of blending applications i.e. staff in IFIs. Failing to guide the flow of applications to fit directly and closely with the required profile could cause time to be wasted in analysing many inappropriate applications.

This management of the upstream pipeline is all the more important because of the nature and source of the pipeline. The EU has 'delegated' the generation of blending applications to IFIs which are large organisations, operating globally and involving many staff. It is essential for all these to have the same understanding concerning which characteristics make a project eligible for blending and which do not. In order to have the same understanding, the EU needs to instruct its

partner IFIs on which projects are sought – defined specifically by characteristics and eligibility criteria.

So it is at this early 'upstream' stage that operational alignment is achieved and the final 'downstream' effectiveness and impact of blending projects is determined. This EQ therefore looks at the first step in the blending business process: has the EU shaped its blending pipeline correctly? In other words, this EQ examines whether i) the EU has 'instructed' its partner IFIs effectively to achieve the right pipeline with the right blending characteristics; ii) the mechanisms have been in place to ensure the strategic relevance of blending; and iii) the portfolio of projects has been aligned to EU and recipient countries' priorities.

Detailed sample of projects:

Overall, this EQ is based upon the analysis of general/strategy level documents and IFIs and EUDs interview findings collected at headquarters and in the field. Moreover, the analysis made for JC2.3 on the alignment of the blending projects with EU and national priorities has been done for the 32 projects the team examined in depth both through documentary review and site visits (see the sample of 32 projects presented in detail for EQ1 that has also been used for this EQ).

2.2 Evaluation question

Summary

- A comprehensive guidance framework has guided the blending pipeline but it was developed late and is not (yet) widely disseminated or understood
- The guidance framework has had some effects on blending project design changes during the early stages of identification and preparation. These changes were largely geared to guiding the projects to become more criteria- and policy-compliant
- The portfolio of blending projects generally responded well to the high-level objectives set for it and the projects visited during the field visits have often been aligned or largely aligned with the priority policy objectives of the beneficiary countries and were also often part of the EU priorities as defined by EU country/regional strategies

A comprehensive guidance framework has guided the blending pipeline but it was developed towards the end of the evaluation period and is not (yet) widely disseminated or understood. A guidance framework has been progressively developed for blending operations. It mostly comprises the Strategy and Annual Action Plans of the Facilities, the EU Guidelines on blending operations, the application form – which includes a range of selection criteria - (and its guidelines/instructions for how to complete the form) and various training sessions. However, the application and use of the guidance framework has been limited in various respects:

- Several elements of the guiding framework were not yet available when early blending operations were already under way, such as the Guidelines on EU blending operations that were only published end 2015 and disseminated early 2016
- The training seminars which progressively developed from 2012-2013 have not yet reached all relevant officials within the EU and there has been little training in partner IFIs
- The application form has evolved over time but became comprehensive only recently (since the work of the EUBEC and the major changes in the August 2014 version, further modified in January 2016)
- The information provided across the selection criteria in the application form has often not been complete enough in most cases examined, particularly on 'hard' elements such as the justification of the size of the grant. Likewise, there was generally no information on key technical parameters such as the ERR/FRR.

The guidance framework has had some effects on blending project design changes. The evidence collected suggests that project design changes have sometimes occurred during early project preparation stages to make blending projects more compliant with policy objectives and eligibility criteria. However, the role of the IFIs and of the EU Blending Facilities in triggering project design changes to broaden policy compliance or improve projects in other ways was rarely documented. Interview findings and available documentation shows that the dialogue between the IFIs and the national partners has been the main driver for project design changes during the identification and preparation phases. One example is the Caprivi Interconnector (ENER/C.Intercon/NA-ZM #1): the project migrated from an initial project design of building a coal-fired thermal power station on the Namibian coast to importing Zambian renewable hydro-electricity by expanding the Namibian transmission grid through the Caprivi strip – and adding a rural electrification component. This change emerged from dialogue – guided by policy objectives (climate, pro-poor and others). Moreover, EU blending Facilities have often exercised quality control and ensured compliance with selection criteria and policy objectives, especially through the Technical Assessment Meetings (TAMs). One damper is Armenia where, at least in the early years of blending, the Facility did not vigorously enough enforce the requirements, leading to a situation qualified as an 'open bar' for grants. The policy objectives spelled out in the Strategic Orientations documents have been a key anchor point of the guiding framework to ensure policy compliance.

The portfolio of blending projects has generally reflected well the high-level objectives set for the blending operations and the projects visited during the field visits have often been aligned or largely aligned with the priority policy objectives of the beneficiary countries and were also often part of the EU priorities as defined by EU country/regional strategies. The portfolio of bending projects has generally targeted the global policy objectives set for all facilities[28]: i) climate related objectives – expressed by the Rio markers in the blending criteria); ii) infrastructure development – focusing on developing the framework for economic growth; iii) PSD and financial inclusion – by banking the un-banked and boosting financial resources for special schemes e.g. energy efficiency; and iv) pro-poor MDG goals. The projects the team visited during the 12 country visits have often (23 out of 32 cases or 78%) been aligned or largely aligned with the priority policies and programmes/plans of the beneficiary countries/regions. For instance, project MULTI/SustDev/CO #19 responded to a demand from the partner, fitted well with the Colombian policy context and responded to an important national priority: fostering economic development and social inclusion, and reducing geographical disparities. A number of cases (9 out of 32 cases or 28%) also illustrate that blending projects focused on national/regional policies of a lower priority level to the country/region (e.g. WASH/IWRM/CO #20 in Colombia and WASH/PNA-ONEP/MA #30 in Morocco) or were developed while the policy framework was not sufficiently mature (e.g. Armenia and Georgia). For instance, in Armenia, project TRANS/MetroRehab/AM #9 was developed while the policy and planning framework for urban transport was incomplete; and project WASH/KotaykSW/AM #13 was developed while the political and enabling environment was not fully mature and without full stakeholder involvement. It is also worth noting that the team did not find any case of misalignment. These projects have also often (23 cases out of 32 or 72%) been aligned to the EU priority areas of action at country/regional level that aim to support: socio-economic development, including competitiveness (Armenia, Egypt, Georgia, Moldova, Morocco); regional economic integration (Mozambique, Kenya, Western Africa); agriculture and rural development (Kenya, Namibia); peace and stability (Colombia); physical reconstruction (Republic of Congo); and environmental protection (Morocco). In some cases (7 out of 32 cases or 22%), blending projects only indirectly

[28] As detailed in the Strategic Orientations for each Facility and amplified in the Multi-annual and Annual Action Plans. In addition, there are global objectives set for all – such as the November 2010 Climate Change Windows and others set out in the Agenda for Change 2011

fitted with EU priority policy objectives. This mostly lies in the fact that EU priority areas are wide and easily encompass a diverse range of sectors. For instance, the EU CSPs/NPs for Armenia do not precisely refer to solid waste management (WASH/KotaykSW/AM #13) or water supply and sanitation services (WASH/SMWP/AM #33) but refer instead to education and social services such as health facilities and childcare.

2.3 Judgement Criteria

JC 2.1 Existence and dissemination of clear strategy, guidelines and transparent selection criteria for blending

Summary JC 2.1 Existence and dissemination of clear strategy, guidelines and transparent selection criteria for blending

- The EU has progressively put in place a comprehensive guidance framework to shape the pipeline of blending project applications to the Facilities
- Key elements of the guidance framework were developed relatively late, especially due to the novelty of the mechanism, its complexity and the scarce human resources dedicated to it
- The depth of the information requested in the project fiches/application forms templates has increased over time
- Mirroring the greater depth of information requested in the project fiches, project selection criteria became more comprehensive over time
- In most project fiches examined in detail, the information provided across selection criteria – which varied according to the type of criterion – has often not been complete enough
- Moreover, an extensive training programme started in 2012 and progressively developed from 2012-2013 but its outreach remained modest so far

The EU has progressively put in place a comprehensive guidance framework to shape the pipeline of blending project applications to the Facilities (I-2.1.1). While the Facility documentation and guidance framework was complete from the start of each Facility's launch, other key elements of the guidance framework came significantly after blending was launched. Each Facility has had from the start a comprehensive set of guidance documents that set out strategy, objectives and criteria, especially the Strategic Orientations Document, the Multi-Annual Indicative Policy and the Annual Action Plan. Other key elements such as the 'Guidelines on EU blending operations' - that set out in clear and comprehensive detail key strategic and operational aspects of blending - have only been published since end 2015 and disseminated early 2016. Similarly, it is only in 2014, in line with the 2014 blending governance changes, that a revised and more comprehensive application form template for all facilities was introduced to undertake the ex-ante technical and financial analysis of projects presented to EU Blending Facilities. It is accompanied by a Guideline on Completing the Application Form dated August 2014 and developed together with the IFIs and other stakeholders in the context of the European Platform (EUBEC). Previously, the 'Project fiches' templates differed across facilities (e.g. ITF, NIF) and provided less information on the projects.

Sources of information: EU guidance documents, including 'EU Guidelines on EU blending operations, 2015' and 2014 'Application Form' template
Quality of evidence: Strong (on the basis of the review of the various elements of the guidance framework complemented by interviews with EU HQ).

Key elements of the guidance framework were developed towards the end of the evaluation period, especially due to the novelty of the mechanism, its complexity and the scarce human resources dedicated to it (I-2.1.1). Blending, as a new EU financing mechanism, progressively adjusted the guidance framework over time through learning-by-doing. Blending is complex and multi-stakeholder: this introduces many dimensions and perspectives on a single task and *in fine* complicates the production of guidance. The resources available for guiding blending activities were constrained: only since 2011 was there a fairly small team within Unit C3 that was

able to focus on a wide range of strategic, operational, governance, guidance and contracting tasks for blending.
Sources of information: EU guidance documents, including 'EU Guidelines on EU blending operations, 2015' and 2014 'Application Form' template; Interviews with EU staff in headquarters.
Quality of evidence: Strong.

The depth of the information requested in the project fiches/application forms templates has increased over time (I-2.1.1). As a starting point, it is important to keep in mind that project fiches/application forms that are completed by the lead IFI are an extract of much broader documentation and analysis within that IFI. In the early days of blending, the 'project fiches' templates provided only basic project information. From 2010 to 2014, they gave more detailed information, both on the overall project and on the grant operation to be financed by the facility. It is worth noting that the section dealing with the 'project related parameters' introduced new sections: one dealing with the value added of the grant in addition to the grant request justification, and another with risk assessment. Major changes introduced with the 2014 application form concern the inclusion of specific individual sections related to: debt sustainability; expected results with the introduction of an explicit results measurement framework; and climate mitigation and adaptation aspects. The 2016 updated version of the 2014 application form replaces the section on the 'added value of the grant' by the 'additionality of the EU contribution' and further deepens the 'Climate and Environment Rio markers' sub-section. The emphasis on the additionality of the EU grant is expanded on page 16 of the Guidelines on completing the application form: the different types of additionality that can be expected from the EU grant are economic, financial, social, project scale, project timing, project quality and standards, innovation, sustainability, environment, and others.

Sources of information: Project fiches dated with the years covered by this evaluation (2008 to 2014); 2014 application form and its updated 2016 version
Quality of evidence: More than satisfactory.

Mirroring the greater depth of information requested in the project fiches, project selection criteria became more comprehensive over time (I-2.1.2). Project selection criteria relate both to hard (e.g. size of the grant, sector, geography) and soft elements (e.g. project design features) as well as to policy alignment (with each Facility objectives and the policies of beneficiary countries). These criteria have progressively encompassed an increased number of elements as the project fiches / application forms became more demanding in terms of information to be provided. The new application form developed by the EUBEC Platform and launched in August 2014 - and updated in January 2016 - is the most specific and comprehensive template as far as selection criteria are concerned. Under 36 data fields the application form requires comprehensive information about the country, the sector, the project, and the grant. It also presents a summary of 12 'must-have' criteria that the application has to demonstrate for the project to be approved for a blending grant. Some of the headquarters representatives of the IFIs met during this evaluation however perceived the filling up of the application form as being cumbersome.

Sources of information: Project fiches dated with the years covered by this evaluation (2008 to 2014); 2014 application form and its updated 2016 version; interviews with IFIs headquarters
Quality of evidence: More than satisfactory.

In most project fiches examined in detail, the information provided across selection criteria – which varied according to the type of criterion – has often not been enough complete or detailed (I-2.1.2). The close review of 15 out of the 32 visited projects by the team – approved between 2008 and 2013 - shows that hard criteria (size of the grant, sectors, geography, and

ERR/FRR) were generally not precisely justified in the project fiches, apart from the geographic criteria that received more attention. For instance, information on the justification of the grant amount was provided in only 5 out of the 15 cases examined. In those cases, the information focused on the blocking factor the grant had to resolve rather than on the amount envisaged. Likewise, very few of the 15 cases examined included data on the expected ERR/FRR. The Beira corridor project (TRANS/Corridor/MZ #26) is one example that indicates data on the expected ERR (16% for the port component and 18% for the rail component) and on the real financial internal rate of return (14% for the Sena line alone)[29]. Soft criteria, that are specific project design features, have often been explained in the project fiches. Finally, alignment to the policies of the recipient countries did not stand out as a significant criterion in the project fiches. In most cases reviewed (9 out of 15), the project fiches do not refer explicitly to the national policies or programmes that the project intended to support. The project fiches of the examined projects do not mention the Public Investment Programmes (PIP), Multi-annual Fiscal Frameworks (MFF) or Debt Sustainability Frameworks (DSF). Finally, regarding the checklist of requirements, the various criteria are often almost all ticked, but the corresponding assessment is usually not clearly specified in the main body of the application form.

Sources of information: Project fiches of 15 projects examined in detail.
Quality of evidence: More than satisfactory.

Moreover, an extensive training programme started in 2012 and progressively developed from 2013 but its outreach remained modest so far (I-2.1.5). The blending training started shortly after DG DEVCO Unit C3 was created in 2011. It contains two main modules dealing with 'the theory' and 'the practice' of blending. So far, about 20-25 internal blending training sessions have been held at the Commission and EUDs covering approximately 400-500 HQ and Delegation staff. Overall, the data gathered during the 12 country visits show that blending training was perceived as being insufficient, be it for EUD staff, IFI staff, or beneficiary PIU teams. More generally interview findings indicate that the training seminars have not yet reached all relevant officials within the EU and that there has been little training in partner IFIs. In addition to these formal trainings, the C3 team has made blending presentations at numerous regional and thematic meetings. Two formal seminars have been held in each of the key IFI partner institutions (EIB, KfW, EBRD, AFD, AECID) and more recently also at AfDB and CDB. Finally, the EU also has inputs into the internal blending training held at IFIs, especially through EU IFI seconded experts to Unit C3 since 2011/2012.

Sources of information: interviews with EU and IFIs representatives in headquarters and in the field.
Quality of evidence: More than satisfactory.

JC 2.2 Extent to which blending led to enhanced and amended project features during project processing

Summary JC 2.2 Extent to which blending led to enhanced and amended project features during project processing

- The evidence collected suggests that project design changes have sometimes occurred during early project preparation stages to make blending projects more compliant with policy objectives and eligibility criteria

[29] Besides, the review of additional non-sampled projects during the field visits shows that ERR calculations were also made at identification stage for the Benin-Togo Power Rehabilitation project (LCO component) (the global project ERR was estimated at 12%, and 13% when including associated carbon emission savings).

- EU blending facilities often exercised quality control to strengthen compliance with policy objectives and eligibility criteria during early preparation stages.

The evidence collected suggests that project design changes have sometimes occurred during early project preparation stages to make blending projects more compliant with policy objectives and eligibility criteria (I-2.2.1). These changes were typically not documented, at least in the documentation made available to the team (I-2.2.1 & I-2.1.5[30]). Through interviews, the team could collect evidence of extensive change in the project design during the early phases of project design for two projects of the desk sample (ENER/C.Intercon/NA-ZM #1; COM/SubCable/SC-TZ #6). For the Caprivi Interconnector, the project migrated from an initial project design of building a coal-fired thermal power station on the Namibian coast to importing Zambian renewable hydro-electricity by expanding the Namibian transmission grid through the Caprivi strip – and adding a rural electrification component. This change emerged from dialogue – guided by policy objectives (climate, pro-poor and others). More generally, interview findings show that the driving engine of design project changes has typically been the IFI and its dialogue with the beneficiary.

Sources: Interviews with EU and IFIs representatives in headquarters and in the field
Quality of evidence: Indicative but not conclusive.

EU blending facilities often exercised quality control to strengthen compliance with policy objectives and eligibility criteria during early preparation stages. The early governance structure of the Facilities comprised three main review meetings: technical, operational and strategic, and two decision stages, preliminary and final. The technical meetings – now called Technical Assessment Meetings (TAMs) following the 2014 EUBEC blending governance changes – took place regularly during the project identification stage to discuss the pipeline of projects and during the preparation screening stages to technically assess project proposals on the basis of the project application form. The outcomes of the technical meetings held during the screening stage can be as follows: project proposals may i) be assessed as technically mature, ii) need to be revised, or iii) be rejected. When identified issues are not resolved, the Facility technical group 'returns' the project concept to the applicant IFI rather than proposes design changes (I-2.2.2). However, these project design changes are rarely documented, at least in the documentation that was made available to the team. Crossing the available minutes[31] of Operational Board meetings / Technical Assessment Meetings with the projects examined in-depth[32], the team could notice that the review process carried out during the technical assessment meetings emphasized specific project features that were key for the projects to be eligible for a blending grant. These features cover a wide range of themes spanning potential impact, the added value of the grant, complementarity with existing programmes, end-beneficiaries targeted for SME support, etc. However, the team did not have access to the successive drafts of the project fiches to check whether the elements stressed during the technical meetings have actually led to changes in the design of the projects (I-2.2.1). Besides, the field visit in Armenia shows strong evidence that the Facility did not exercise this quality control role, at least in the early years of blending. The Facility has not vigorously enough enforced the requirements, hence leading to a non-efficient use of the grants. Interviewees qualified the situation at the time as an 'open bar' for grants (I-2.2.2).

[30] The in-depth analysis of 15 of the visited projects shows that information exchanges between IFIs and the EU at project design stage were not systematically documented or stored in confidential documentation the team could not have access to.

[31] These minutes were available for the years 2013-2014 only

[32] This concerns only four projects of the sample (ENER/Env.Credit lines/REG #43-44, ENER/SEFF/MA-JO #35, ENER/O.SolarPlant/MA #15, and BANK/EFSE/MC #36)

Sources of information: EU blending training programme material; EU, Guidelines on EU blending operations, 2015; EUBEC, Discussion paper on the future governance of the EU blending facilities, 2014; Minutes of the TAMs; EU Grant Request Assessment Grid; Interviews with EUDs representatives in the visited countries
Quality of evidence: More than satisfactory.

JC 2.3 Blending portfolio alignment with national/regional and EU development policies reflecting transparent criteria

Summary JC 2.3 Blending portfolio alignment with national/regional and EU development policies reflecting transparent criteria

- The blending projects have targeted the global policy objectives set for the facilities
- Blending projects have often been aligned or largely aligned with the priority policies of the 12 beneficiary countries visited
- Blending projects have often been aligned to the EU strategies of the 12 visited countries

The blending projects have targeted the global policy objectives set for the facilities (I-2.3.1). Each Facility has its own objectives – articulated in the Strategic Orientations document and amplified in the Multi-annual and Annual Action Plans. These are substantially similar between Facilities. In addition, there are global objectives set for all – such as the November 2010 Climate Change Windows and others set out in the Agenda for Change 2011 that can be distilled as:

- Climate related objectives – expressed by the Rio markers in the blending criteria
- Infrastructure development – focusing on developing the framework for economic growth.
- PSD and financial inclusion – achieved by banking the un-banked and boosting financial resources for special schemes e.g. energy efficiency
- Pro-poor MDG goals – aimed for example at rural poor or specific social groups e.g. women.

Data on portfolio allocation (see detailed inventory of blending projects in Volume 2) shows that blending projects have addressed all these policy objectives, with the first two (climate and infrastructure) as the most prominent and PSD as the third-ranking.

Sources of information: EU blending facilities strategic documentation; blending inventory of blending projects
Quality of evidence: More than satisfactory.

Blending projects have often been well aligned or largely aligned with the priority policies of the 12 beneficiary countries visited (I-2.3.2). The team used a ranking scale to assess the degree of alignment of the 32 blending projects visited during the country visits[33]. Overall the close review by the team shows that in the vast majority of the cases examined (78% or 25 out of 32 cases) blending projects have been aligned ('A' score) or largely aligned ('B+' score) with specific national/regional priority plans and or policies. For instance, the project MULTI/SustDev/CO #19 was ranked as 'A' for its alignment to national policies: it responded to a demand from the partner, fitted well with the Colombian policy context and responded to an important national priority: fostering economic development and social inclusion, and reducing geographical disparities. The blending project WASH/IWSP/EG #14 was ranked as 'B+' for its alignment to national policies: it followed the priorities of Egypt's current National Environmental Action Plan

[33] The scores used are detailed below in I-2.3.2. They are: 'A' for a project aligned with national priority policy objectives; 'B+' for a project largely aligned with national priority policy objectives; 'B' for a project relevant with national priority policy objectives but addressing policies with a lower priority level; and 'C' for a project misaligned.

with water quality being presented as an essential component of the infrastructural setting required to attain high economic growth rates, but the government still has significant reforms to implement to improve the policy environment (decentralisation and tariffs). A number of cases (7 out of 32 cases or 28%) also illustrate that blending projects have also focused on national/regional policies of a lower priority level to the country/region (e.g. WASH/IWRM/CO #20 in Colombia and WASH/PNA-ONEP/MA #30 in Morocco) or were developed while the policy framework was not sufficiently mature (e.g. Armenia and Georgia). These projects were scored as 'B' for their alignment with national priority policies. In Armenia, project TRANS/MetroRehab/AM #9 was developed while the policy and planning framework for urban transport was incomplete; and project WASH/KotaykSW/AM #13 was developed while the political and enabling environment was not fully mature and without full stakeholder involvement. Finally, it is worth noting that the team did not find any case of misalignment (or 'C' ranking). The table below proposes a few examples to illustrate this finding. The findings related to the 32 visited projects are provided in the below Indicator analysis section.

Table 17 - Degree of alignment of blending projects with national/regional policies: a few illustrative cases

Project	Degree of alignment with national/regional policies
Armenia	
TRANS/ MetroRehab/ AM #9	The project is aligned with national policies though the policy and planning framework for urban transport was incomplete. A number of studies and strategies exist (e.g. the Transport Master Plan (2011) supported by ADB) which generally support the actions planned by the blending project, a more detailed encompassing strategy for urban transport was still absent (note: an ongoing process supported by ADB should lead to a strategy mid-2017).
WASH/ KotaykSW/AM #13	The project was developed in advance of a consensus on the strategy for solid waste management and without full stakeholder involvement (e.g. of the regional administration and environment ministries). The political and enabling environment was not fully mature.
WASH/SMWP/ AM #33	The municipal water project loyally follows and supports the national strategy for providing services through national utilities. The project is part of a prioritised investment plan.
Colombia	
MULTI/ SustDev/CO #19	The project has supported the 2010-2014 and 2014-2018 Colombian National Development Plans. The actions financed locally have also well fitted with local priorities (e.g. Monteria's Municipal Development plan of the 2032 Action plan)
WASH/IWRM/ CO #20	This project supports the implementation of the IWRM policy and in particular of the 'Horizon 2014 IWRM hydrologic plan'. It is fully aligned with the 2014-2018 National Development Plan and the National Policy document "Conpes 3801/2014" that establishes the political and economic guidelines for the intervention in Lake Tota.
Republic of Congo	
TRANS/PAPN/ CG #41-42	The project contributes to the implementation of the National Transport Plan, adopted in 2005 by Congolese authorities with the technical support of the EU.
Egypt	
ENER/ PowerTrans/EG #31	The blending project supported and was well aligned with national policies for supporting energy sector: all components are priority schemes to be implemented over the period 2010-2014, and are part of the comprehensive Transmission Network Master Plan that the promoter developed in 2009.
Morocco	
ENER/ O.SolarPlant/ MA #15	The project has been well aligned with national policies and strategies in the sector of energy: the Moroccan Solar plan (2009).
WASH/PNA-ONEP/MA #30	The project directly supports the implementation of the Moroccan National Sanitation Programme (PNA) launched in 2006.
ENER/SEFF/ MA-JO #35	The project is in line with the Moroccan laws and code in the field of renewable energy and energy efficiency.
Uganda	
WASH/LVWATSAN/UG #27-28	The project aligns directly with Government policy pledges to provide quality potable water to all areas of Kampala including peripheral urban areas and with the water sector government policies in general.

Sources of information: project documentation and interviews with national counterparts in the field

Quality of evidence: More than satisfactory.

Blending projects have often been aligned to the EU strategies of the 12 visited countries (I-2.3.3). The team assessed the degree of alignment of blending projects with EU strategies at country/regional level – as expressed in the Country/Regional Strategy Papers and National/Regional/Multi-annual Indicative Programmes (2007-2013 & 2014-2020) - for the 12 countries visited during the field visits using a ranking scale ('A', 'B+', 'B', or 'C'). The review made by the team shows that blending projects visited in the field were often (23 cases out of 32 or 72%) aligned with the priority areas defined in the EU strategies at country/regional level (score 'A'). This means that the projects often aimed to contribute to the main objectives pursued by the EU in the sectors defined as priority in EU official cooperation documents. For instance, the Port of Pointe Noire project (TRANS/PAPN/CG #41-42) fitted the regional integration EU priority area and is explicitly mentioned in the 2008-2013 EU-Republic of Congo NIP as the main priority for the EU in the field of transport infrastructure. In some cases (7 out of 32 cases or 22%), blending projects only indirectly fitted with EU priority policy objectives (score 'B'). This mostly lies in the fact that EU priority areas are wide and easily encompass a diverse range of sectors. For instance, the EU CSPs/NPs for Armenia do not precisely refer to solid waste management (WASH/KotaykSW/AM #13) or water supply and sanitation services (WASH/SMWP/AM #33) but refer instead to education and social services such as health facilities and childcare. In the 12 countries visited, blending projects focused on infrastructure (transport, water and sanitation, energy), urban development and PSD. They focused on the EU priority areas of action aiming to support: socio-economic development, including competitiveness (Armenia, Egypt, Georgia, Moldova, Morocco); regional economic integration (Mozambique, Kenya, Western Africa); agriculture and rural development (Kenya, Namibia); peace and stability (Colombia); physical reconstruction (Republic of Congo); and environmental protection (Morocco).

Sources of information: EU Country/Regional Strategy Papers for the 12 countries visited; project documentation (project fiches); Interviews with EUD representatives in the field
Quality of evidence: More than satisfactory.

Summary of the Data Collection Process for Evaluation Question 2

Judgement criteria information availability (go to indicator level if needed)	
JC 2.1	5
JC 2.2	4
JC 2.3	4
1= low – 5 = high	
Hypotheses to be tested in the field	**Evidence**
▪ Project selection and approval is aligned with policy priorities	This is confirmed. All blending projects visited during the 12 visited countries were fully compliant with national policies (and IFI policies), apart from the case of Armenia where some projects were better aligned than others.
▪ Training has been sufficient	This is not confirmed. In 8 out of 12 visited countries, training was perceived by key stakeholders (EUD staff / IFI staff / PIU staff where applicable) as being insufficient.
▪ That IFIs and EUDs are clear on the criteria	This is mixed. In 6 of the visited countries, EUDs and IFIs were (at that time of project design) not entirely clear on selection criteria. Besides, in the early days of blending, the EUDs were usually not closely involved in project preparation.

2.4 Indicator analysis

JC 2.1 Existence and dissemination of clear strategy, guidelines and transparent selection criteria for blending

I-2.1.1 Existence of a blending strategy and operational guidelines, overall and adapted per Facility

The EU has progressively put in place a comprehensive guidance framework to shape the pipeline of blending project applications to the Facilities.

Each Facility has had, from the start of blending operations around 2008, a comprehensive set of guidance documents that set out strategy, objectives and criteria. These documents include:

- The Strategic Orientations Document, which is a multi-year strategy that sets out clear objectives and project priorities and serves as a good guide to which projects are suitable for blending (see as an example the NIF: Strategic Orientations 2014-2020)
- The Multi-Annual Indicative Policy, which also sets the context for project objectives and selection and adds quantification (see as an example the Regional Programming for Asia Multi-Annual Indicative Programme 2014-2020)
- The Annual Action Plan, which specifies the sectors and types of projects which are sought by (and eligible for) the Facility (see for example section 3.3 of the LAIF Annual Action Plan dealing with 'Main Activities')
- These are complemented by the EU Regional Indicative Programme and National Indicative Programme documents that set out EU priorities at regional and country levels.

Other important elements of the guidance framework came significantly later than the start of blending operations:

- The Blending Guidelines have only been published end 2015 and widely disseminated in 2016
- The comprehensive application form was introduced in August 2014.

The EU (DG DEVCO - Unit C3) published the 'Guidelines on EU blending operations' in November 2015. This 60 pages manual (excluding annexes) sets out in clear and comprehensive detail key strategic and operational aspects of Blending under 9 chapter headings:

- Chapter 2 outlines the concept and rationale for blending
- Chapter 3 presents the forms of EU support under blending operations, including guidance on the use of specific instruments;
- Chapter 4 presents the overview of blending operations;
- Chapter 5 outlines the typical operational cycle of blended operations highlighting the role of specific stakeholders in the process including the role of EU Delegations, Thematic and Geographical Units in Headquarters.
- Chapter 6 highlights the risks and mitigation tools involved in blending;
- Chapter 7 presents the key issues to ensuring the visibility of blended operations;
- Chapter 8 outlines the climate change issues relevant for blended operations;
- Chapter 9 introduces key issues related to the involvement of private sector.

Until mid-2014, the ex-ante technical and financial analysis of projects presented to EU Blending Facilities was made on the basis of 'Project Fiches'. It is important to keep in mind that project fiches/application forms that are completed by the lead IFI are an extract of much broader documentation and analysis within that IFI. While the templates of these fiches differed across facilities (e.g. ITF, NIF), overall they provided the same type of information on the projects to be financed and followed the same evolution pattern. Indeed, the templates for both facilities got more detailed over time. In the early period and until 2010, the templates provided basic project

information. As of 2010, the templates made the distinction between the overall project and the grant operation to be financed by the facility. We propose more detailed information on the evolution of the template as far as the NIF is concerned. In 2009, the NIF template was rather short and included basic project information (project description, conformity with the NIF strategic orientations, grant request justification; project financing plan and project chronology). In 2010, the template got more detailed: it was divided in three main headlines: i) general project information (project description and macroeconomic and sector parameters); ii) project related parameters, which included in particular a section on the value added of the grant in addition to the grant request justification, and a section on risk assessment; and iii) project impact and implementation, which especially includes a section on project sustainability.

The EUBEC platform reviewed the project identification process and developed a 'new tool aimed at ensuring a more rigorous, transparent and effective project selection process', that is the comprehensive application form introduced in August 2014. The heart of the 2014 application form is articulated around one main section providing the detailed description of the project in a systematic way with a range of successive boxes to be filled. Major changes compared to previous templates concern the inclusion of specific individual sections related to: debt sustainability; expected results with the introduction of an explicit results measurement framework; climate mitigation and adaptation aspects. It is accompanied by a Guideline on Completing the Application Form dated August 2014 and developed together with the IFIs and other stakeholders in the context of the European Platform (EUBEC). This 34 pages document explains the IFI project officers completing the application form what information is needed where and for what purpose. The 2014 application from has been updated in January 2016. The 2016 version replaces the added value of the grant section by the additionality of the EU contribution and further details in the accompanying document the different types of additionality that can be expected from the EU grant (economic, financial, social, project scale, project timing, project quality and standards, innovation, sustainability, environment, others). It also further deepens the 'Climate and Environment Rio markers' sub-section.

Several reasons explain why key elements of the guidance framework were developed relatively late.

i. Blending, as a new EU financing mechanism, developed operational elements in its early phase of operations and adjusted the guidance framework over time through learning-by-doing. EU key informants noted that this had the positive effect of enabling substantial experience to be incorporated into the Guidelines, training and revised Application form, thereby making them more relevant and adapted to blending's needs.
ii. Blending is complex and multi-stakeholder, which introduces many dimensions and perspectives on a single task. For example – different stakeholders have different roles in different project cycle tasks and this renders guidance for that task more difficult. Furthermore these roles should evolve in the near future: it is expected that the EUDs will play a more prominent role in the project cycle, especially the early stages, going forward. Furthermore, some differences in roles and responsibilities may emerge between DEVCO and NEAR – for example the latter is substantially decentralising contracting responsibility to EUDs.

The EU Blending project cycle

	Identification	Preparation	Peer review & screening	Board Opinion & Decision	Contracting	Monitoring	Evaluation
EU Delegation/ Geo Reg	√	√	√		√	√	√
DEVCO HQ	√	√	Lead (Geo Director)	Lead (Geo Director)	Lead (Geo Director)	√	√
Partner FI	Lead	Lead	√		√	Resp. as entrusted entity	Resp. as entrusted entity
Beneficiary	√	√			√	√	√
Member States				√			
Other			Line DGs DEVCO C, Geo, EEAS	COM decision			

Source: Devco C3: Blending training course

iii. The resources available for guiding blending activities were constrained – only since 2011 there has been a fairly small team within Unit C3 been who was able to focus on a wide range of strategic, operational, governance, guidance and contracting tasks for blending.

I-2.1.2 Identifiable eligibility criteria: hard e.g. size, sector, geography, FRR/ERR features; soft e.g. design features, innovation, new technology; and policy alignment e.g. Public Investment Programmes (PIP), Multi-annual Fiscal Frameworks (MFF) and Debt Sustainability Frameworks (DSF)

The project fiches / application forms provided for specific project selection criteria relating both to hard and soft elements as well as to alignment with the policies of recipient countries. The coverage of these criteria increased together with the progressive depth of information requested by the successive project fiches / application forms (see above indicator). The new application form developed by the EU Platform and launched in August 2014 - and updated in January 2016 - is the most specific and comprehensive template as far as selection criteria are concerned. Under 36 data fields the application form requires comprehensive information about the country, the sector, the project, and the grant. It also presents a summary of 12 'must-have' criteria that the application has to demonstrate for the project to be approved for a blending grant. For information these are:

Annex I: Key requirements checklist

	Main requirements: Please confirm whether the operations proposed will	Yes	No
1	Benefit only the countries eligible under the respective EU regional blending facility		
2	Be fully consistent with EU principles/directives in particular concerning the Environment, Public Procurement and State Aid		
3	Be ODA eligible		
4	Not duplicate or overlap with other operations		
5	Be complementary to corresponding regional, national and local strategy and measures (*sections 20 and 21*)		

6	Concern the objectives and sectors identified in the Strategic Orientations of the respective EU regional blending facility and relevant Action Plans (*section 21*)		
7	Provide a clear explanation of the use of the contribution(s) requested (*sections 23 and annex IV*)		
8	Be technically and financially sound (provides value for money) (*sections 24 and 24bis*)		
9	Help leverage loans (*section 26*)		
10	Avoid replacing private financing or introducing distortions to the financial market (*section 27*)		
11	Project demonstrates clear expected direct or indirect poverty alleviation impact (section 28)		
12	Provide a justification for the size of the contribution(s) requested *(section 34*)		

Priority Criteria

1	Operations presented by Eligible Finance Institutions in a consortium		
	Other priority criteria may be added according to regional priorities		

Source: EU, Application forms for blending operations, August 2014 and January 2016

The team reviewed in detail 15 projects out of the 32 visited projects – approved between 2008 and 2013 - to assess how these selection criteria were used in practise. It shows that hard criteria (size of the grant, sectors, geography, and ERR/FRR) were usually not precisely justified in the project fiches, apart from the geographic criteria that received more attention. Soft criteria, that are specific project design features, are often explained in the project fiches. Finally, alignment to the policies of the recipient countries does not stand out as a significant criterion in the project fiches.

Use of hard criteria in project selection for the projects examined:

- Size of the grant: is mentioned in most project fiches reviewed (12 out of 15 cases) but often not justified (10 out of 15 cases) and the box of the checklist 'Provide a clear justification for the size as well as the use of the NIF contribution requested' ticked in half the cases (8 out of 15 cases). In the cases where information was provided on the justification of the grant amount in the project fiches, information focused on the blocking factor the grant had to resolve rather than on the amount provided per se. In the five cases mentioned, the grant was justified: by the very high expected development impact of the project (ENER/C.Intercon/NA-ZM #1), to incentivise PFIs to re-engage with the SME and MSME segments (IND/SME Facility/REG #12), to cope with existing affordability constraints and the limited national experience in solid waste management (WASH/KotaykSW/AM #13), or to reduce the high investment costs resulting from the solar technology (ENER/O.SolarPlant/MA #15), to finance accompanying measures deemed necessary to secure project implementation (WASH/PNA-ONEP/MA #30).
- Sectors: For NIF projects, the box of the checklist 'Fall within the sectors identified in the NIF Strategic Orientations/ Investments in sectors with limited borrowing capacity' was ticked for most cases reviewed.
- Geography: is justified in most project fiches reviewed (12 out of 15 cases). The project fiches put focus either on the regional intended effects of the projects or on the relevance of the localisation of the project. For instance, The Caprivi interconnector was expected to bring positive externalities (SAPP and Environment) to the region. Likewise, Kotayk was selected due to its proximity to Yerevan, with the intention of creating a demonstration project for the

entire country (WASH/KotaykSW/AM #13). Ouarzazate has been selected for implanting a solar plant due to the irradiation of the region (ENER/O.SolarPlant/MA #15).

- The projects fiches generally do not include precise quantified data as far as the Financial Rate of Return and Economic Rate of Return are concerned. One case examined, the Beira corridor project (TRANS/Corridor/MZ #26), indicates an expected ERR of 16% for the port component and of 18% for the rail component. The financial model provided to the EIB during appraisal indicates a base case expected real financial internal rate of return (FIRR) for the Sena line alone as 14%. There is no information on FRR for the port component. Besides, the review of additional projects during the field visits shows that ERR calculations were also made at identification stage for the Benin-Togo Power Rehabilitation project LCO component (the global project ERR was estimated at 12%, and 13% when including associated carbon emission savings).

Soft criteria, that are specific design features, are often detailed in the project fiches, either under the project description section or the one dealing with the value added of the grant. These criteria relate to technology innovation with the wind farm in Egypt (ENER/Wind Farm/EG #32) and the solar plant in Morocco (ENER/O.SolarPlant/MA #15); expected environmental benefits through the modernization of the trolleybus fleet which is intended to improve air quality (TRANS/PublicTrans/MD #10); potential demonstration effects: the Kotayk solid waste project was the first solid waste project in Armenia (WASH/KotaykSW/AM #13); IWSP was the first large environmental investment programme of the main European financing organization in the region, and was therefore seen as a European flagship project (WASH/IWSP/EG #14); the intended leverage of funds from private investors (BANK/EFSE/MC #36). The ultimate application form template made the identification of those criteria more systematic with the inclusion of a specific section on the additionality of the EU contribution which identifies the following potential types of added value: Economic; Financial; Social; Project scale; Project timing; Project quality and standards; Innovation; Sustainability; Environment; and Other benefits.

Alignment to the policies of the recipient countries does not stand out as a significant criterion in the project fiches. In most cases reviewed (9 out of 15), the project fiches do not refer explicitly to the national policies or programmes that the project intended to support. The project fiches of the examined projects do not mention the Public Investment Programmes (PIP), Multi-annual Fiscal Frameworks (MFF) or Debt Sustainability Frameworks (DSF). In half of the cases reviewed, the requirement of the checklist 'Be complementary to corresponding regional, national and local strategy and measures' was ticked.

Regarding the checklist of requirements, the various criteria are often almost all ticked, but the corresponding assessment is usually not clearly specified in the main body of the application form.

I-2.1.3 Existence of project profiles

Project profiles are short write-ups of generic project designs. Their key use is to create a 'community of best practice' and migrate good project ideas and experience around regions. Documentary analysis and interviews held in headquarters and in the field show that a common data bank of project profiles was not developed during the period under review (2007-2014).

I-2.1.4 Existence and content of information interchange with IFIs at design stage

Until 2014, the projects presented by the Lead IFI were discussed during a 'technical body' to which eligible IFIs and DG DEVCO participated. With the 2014 blending governance changes, information sharing between the Commission and the IFIs expanded: to ensure coordination at an early stage, FIs now provide operational pipelines including summary information on project proposals under development. Pipeline discussion takes place in a dedicated technical meeting held

once a year. As part of the technical assessment process, project proposals are then discussed in a Technical Assessment Meeting (TAM) (organized by the Secretariat, with EEAS[34] and FIs and chaired by the European Commission) that is held on a regular basis depending on the needs. Oral and written comments on project proposals are given during these meetings. (Source: EU, Discussion paper on the future governance of the EU blending facilities, 2014).

The in-depth analysis of 15 of the visited projects shows that information exchanges between IFIs and the EU at project design stage were not systematically documented or stored in confidential documentation the team could not have access to.

I-2.1.5 Training within EU (HQ and EU D) and to third parties i.e. IFIs

The blending training started in 2012 shortly after DG DEVCO Unit C3 was created in 2011 and expanded and developed from 2013 but its outreach remained modest overall so far.

The training material is extensive: it contains four main modules (Background information, IFIs, Operations, and Contracting) dealing with 'the theory' and 'the practice'; what is blending and how do blending operations actually work. For blending operations there are around 20 hand-outs which provide examples of documents and key operational steps. This training material is for internal use only and not intended for the Facilities' partner institutions.

The training programme has been held as follows around three pillars:

- About 25-30 internal blending training sessions have been held at the Commission and EUDs covering approximately 500-600 HQ and Delegation staff.
  - Overall, the data gathered during the country visits show that blending training was perceived as being insufficient, be it for EUD staff, IFI staff, or beneficiary PIU teams. EUD staff received blending training in four of the visited countries. In Moldova, EUD staff was generally fully aware about the topic further to the training while in Egypt and Morocco the training was found good in general terms but not specific enough on contractual issues for participants. In some EUDs such as Benin, the staff was already fully acquainted with blending without specific training.
  - Moreover, interview findings show that the training seminars have not yet reached all relevant officials within the EU and that there has been little training in partner IFIs.
  - In addition to these formal trainings, the C3 team has made blending presentations at numerous regional and thematic meetings.
- Two formal seminars have been held in each of the key IFI partner institutions (EIB, KfW, EBRD, AFD, AECID) and more recently also at AfDB and CDB.
- The EU also has inputs into the internal blending training held at IFIs, especially through EU MS seconded staff to Unit C3 since 20011/2012. For instance, this enabled the delivery of two internal trainings at AFD.

Source: interviews with EU and IFIs representatives in headquarters and in the field

JC 2.2 Extent to which blending led to enhanced and amended project features during project processing

I-2.2.1 Evidence of project fiches changing during the application and screening process

Interviews held and documents consulted show that project concept changes are rarely documented. The team undertook a detailed review of the available Minutes of Operational Board meetings / Technical Assessment Meetings and crossed it with relevant projects from the sample

[34] In the case of WBIF the EEAS is not involved

(see below table). Data on the minutes was available for the years 2013-2014 only. It covers only four projects that belong to the desk sample. This exercise shows that the review process for decision of the grant operation requests carried out during the technical assessment meetings emphasized specific project features that were key for the projects to be eligible for a blending grant. These features cover a wide range of themes spanning potential impact, the added value of the grant, complementarity with existing programmes, end-beneficiaries targeted for SME support, etc. However, the team did not have access to the successive drafts of the project fiches to check whether the elements stressed during the technical meetings have actually led to changes in the design of the projects.

Table 18 - Project features emphasized during the TAMs

ENER/Env.Credit lines/REG #43-44	▪ Regional impact ▪ Proved added value of the grant ▪ Coordination with existing programmes
ENER/SEFF/MA-JO #35	▪ Potential specific sector targeting (e. g. energy efficiency, renewable energy, de-contamination) ▪ Target-groups of borrowers (size of loan) ▪ Complementarity to corresponding regional, national and local strategy and measures
ENER/O.SolarPlant /MA #15	▪ Conditions imposed to bidders in the tender that could be discriminating towards certain business models
BANK/EFSE/MC #36	▪ Geographical scope relevance

Source: Minutes of the TAMs 2013 and 3014

Through interviews, the team could collect evidence of extensive change in the project design during the early phases of project design for two projects (ENER/C.Intercon/NA-ZM #1; COM/SubCable/SC-TZ #6). The Caprivi Interconnector project migrated from an initial project design of building a coal-fired thermal power station on the Namibian coast to importing Zambian renewable hydro-electricity by expanding the Namibian transmission grid through the Caprivi strip – and adding a rural electrification component. This change emerged from dialogue – guided by policy objectives (climate, pro-poor and others). Similarly taking a 'plain-vanilla' for-profit project to lay an internet cable on the sea bed and adding a Public Private Partnership structure and designing a Trust Fund to address defined social objectives in the Seychelles represents a considerable and creative change in project concept in the early design stage.

Interview findings show that the driving engine of such project change has typically been the IFI and its dialogue with the national partner (project sponsor). This is not intended to exclude the Blending Facility – instead it is a reflection of the concept of the 'lead financial institution' and the contractual relationship between the IFI and the beneficiary.

I-2.2.2 Steps in screening process that introduce special blending features

The EU Blending Facilities have often played a specialised role to test, probe and question the application, but not to create the project design.

The EU blending project cycle has 7 steps as further illustrated in the below figure. The technical assessment of project proposals begins during the identification and preparation stages and then really takes place during step 3, the screening process, which tests the project design and ensures compliance with blending criteria.

Figure 2 - EU blending project cylce

Identification	Preparation	Peer review & screening (Technical meeting)	Board Opinion (Board meeting) & Com Decision	Contracting	Monitoring	Evaluation
Generating the pipeline'– ideally so there is a chance to select from multiple projects	Ensuring that the project meets criteria and info is complete	Testing the project to see if it meets all the standards	Recommend whether to approve the grant – and on which conditions, followed by formal COM decision	Getting going and implementing in compliance with regulations	Obtaining the right information to 'steer' and manage	Checking to see if the objectives were met and feeding findings into future designs

Source: EU blending training programme material

Until 2014, the technical body gathering eligible IFIs and DG DEVCO i) prepared and screened the provisional pipeline and ii) screened the projects submitted for financing and discussion in order to prepare the decision of the operational Board (including grant amount and nature). With the 2014 blending governance changes, regular Technical Assessment Meetings (TAMs) bringing together the IFIs, the Commission and the EEAS have been emphasised during the early stages of identification and preparation to further improve project quality and facilitate exchange of expertise. These meetings discuss the pipeline of projects and technically assess project proposals submitted by lead financial institutions on the basis of the project application form. They also aim to ensure portfolio geographical balance and alignment to EU policies.

The outcomes of the technical meetings held during the screening stage can be as follows: project proposals may i) be assessed as technically mature, ii) need to be revised, or iii) be rejected. If issues are identified and not resolved, the Facility technical group 'returns' the project concept to the applicant IFI rather than proposes design changes. As an example, the minutes of a Technical Group meeting of the NIF (November 2014) show that the Facility:

- Tested compliance with criteria and questioned issues like the NIF grant substituting for a Government contribution
- Strongly probed and furthered policy objectives, stressing the importance of achieving, for example, environmental objectives, involving civil society, gender objectives and others
- Set conditions and urged improvements in areas like governance
- Requested additional information for example what TA funding was to be used for
- Ensured coordination between projects – with several examples where the Facility either combined the review of two projects in one sector or requested projects to take other sector activities into account.

It should be noted that there is structured input into the EU review via the 3 page Grant Request Assessment Grid which coordinates opinion on a project from EUDs, the Geographic Teams, other DGs and Thematic Units, Devco C3 and Finance & Contracting.

Besides, the field visit in Armenia shows strong evidence that the Facility did not exercise this quality control role, at least in the early years of blending. EUDs representatives stressed that there has been an "open bar" for grants in the early years of blending in Armenia. The Facility has not vigorously enough enforced the requirements, hence leading to a non-efficient use of the grants.

Sources of information: EU blending training programme material; EU, Guidelines on EU blending operations, 2015; EUBEC, Discussion paper on the future governance of the EU blending facilities, 2014; Minutes of the TAMs; EU Grant Request Assessment Grid; Interviews with EUDs representatives in the countries visited

JC 2.3 Blending portfolio alignment with national/regional and EU development policies reflecting transparent criteria

I-2.3.1 Alignment of blending projects to the policy objectives of the facilities

Each Facility has its own objectives – articulated in the Strategic Orientations document and amplified in the Multi-annual and Annual Action Plans. These are substantially similar between Facilities. In addition, there are global objectives set for all – such as the November 2010 Climate Change Windows and others set out in the Agenda for Change 2011. These high-level objectives can be distilled as:

- Climate related objectives – expressed by the Rio markers in the blending criteria
- Infrastructure development – focusing on developing the framework for economic growth.
- PSD and financial inclusion – achieved by banking the un-banked and boosting financial resources for special schemes e.g. energy efficiency
- Pro-poor MDG goals – aimed for example at rural poor or specific social groups e.g. women.

While the blending portfolio has generally not been shaped by setting quantitative targets per objective or per sector[35], the blending guidance and decision process has steered the overall portfolio to address the high-level objectives set for it, for example:

- The Strategic Guidelines of the Facilities set priorities according to policies and implicitly approve funding in line with these policies.
- The minutes of the technical review meetings show emphasis on policy and objectives, so these meetings act, inter alia, as drivers of achieving policy objectives. Implicitly – though not evident from documentation – the technical review will give priority to projects that further priority policies over those that don't.
- Some high-level strategies, such as for climate change, do introduce quantified targets (e.g. at least 50% of all funding should have a climate dimension).

Data on portfolio allocation (see detailed inventory of blending projects in Volume 2) shows that all these policy objectives are addressed, with the first two (climate and infrastructure) as the most prominent and PSD as the third-ranking.

I-2.3.2 Alignment of blending projects to the priorities of beneficiary countries

Blending projects have often been aligned or largely aligned with the priority policies of the 12 beneficiary countries visited.

The team ranked, on the basis of documentary sources and interviews held in the field, the degree of alignment of the 32 blending projects visited during the country visits using scores as further detailed in the below table: 'A' for a project aligned with national priority policy objectives; 'B+' for a project largely aligned with national priority policy objectives; 'B' for a project relevant with national priority policy objectives but addressing policies with a lower priority level; and 'C' for a project misaligned.

Overall the close review by the team of these 32 projects shows that in the vast majority of the cases examined (72% or 23 out of 32 cases) they have been aligned ('A' score) or largely aligned ('B+' score) with specific national/regional priority plans and or policies[36]. The team found that

[35] For example, we did not find evidence that there were ex-ante quantified targets per objective such as '35% of blending must finance renewable energy'. Such targets would probably be constraining in practice and add little to achieving policy objectives.

[36] For the 2 ergional projects dedicated to SMEs, the analysis has been done for both Moldova and Georgia.

blending projects were aligned to the national/regional priority strategies of the beneficiary countries/regions in 59% of the cases (or 19 cases) or largely aligned to them in 13% of the cases (or 4 cases). For instance, the project MULTI/SustDev/CO #19 was ranked as 'A' for its alignment to national policies: it responded to a demand from the partner, fitted well with the Colombian policy context and responded to an important national priority: fostering economic development and social inclusion, and reducing geographical disparities. The blending project WASH/IWSP/EG #14 was ranked as 'B+' for its alignment to national policies: it followed the priorities of Egypt's current National Environmental Action Plan with water quality being presented as an essential component of the infrastructural setting required to attain high economic growth rates, but the government still has significant reforms to implement to improve the policy environment (decentralisation and tariffs).

A number of cases (9 out of 32 cases or 28%) also illustrate that blending projects have also focused on national/regional policies of a lower priority level to the country/region (e.g. WASH/IWRM/CO #20 in Colombia and WASH/PNA-ONEP/MA #30 in Morocco) or were developed while the policy framework was not sufficiently mature (e.g. Armenia and Georgia). These projects were scored as 'B' for their alignment with national priority policies. In Armenia, project TRANS/MetroRehab/AM #9 was developed while the policy and planning framework for urban transport was incomplete; and project WASH/KotaykSW/AM #13 was developed while the political and enabling environment was not fully mature and without full stakeholder involvement.

Finally, it is worth noting that the team did not find any case of misalignment (or 'C' ranking).

Table 19 – Degree of alignment of the 32 visited projects with national/regional policies

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
Armenia		
TRANS/MetroRehab/AM #9	This project aimed at rehabilitating the Yerevan Metro. It was not part of Armenia Sustainable Development Program (2008 – 2011) because the policy and planning framework for urban transport was incomplete at the date of execution (2010). Nevertheless, a number of studies and strategies exist (e.g. the Transport Master Plan (2011) supported by ADB) which generally support the actions planned by the blending project. The project itself developed a number of feasibility studies at different phases and subsequently a number of options for extended metro development have been compared. Nevertheless a more detailed encompassing strategy for urban transport is absent although after delay there is now a process supported by ADB for developing a strategy that should be finished mid-2017. The project is in line with the Armenia Development Strategy (ADS)	B

[37] Category A: the project objectives and set-up are aligned with national (or regional) priority policy objectives. Category B+: the project objectives and/or set-up are largely aligned with national (or regional) priority policy objectives. Category B: the project objectives and/or set-up are relevant with national (or regional) priority policy objectives but addressing policies with a lower priority level. Category C: the project objectives and/or set-up face serious issues of alignment with national (or regional) policy objectives.

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
	2014-2025 in which there is a clear reference to the implementation of policies promoting the development of nature-friendly transports (metro, electro-transport). The credibility of the national policies concerning the metro was tested through the acceptance and implementation of a significant increase in tariff and some progress, although not as far as expected, on increasing productivity through reducing overmanning.	
WASH/KotaykSW/AM #13	This project was developed in advance of a consensus on the strategy for waste management and without full stakeholder involvement (e.g. of the regional administration and environment ministries). The political and enabling environment was not fully mature. Nevertheless, the project was relevant at an overall policy level as a municipal waste treatment was considered in Armenia Sustainable Development Program (2008 – 2011).	B
WASH/SMWP/AM #33	The municipal water project follows and supports the national strategy for providing services through national utilities as part of socio-economics reforms. The project is part of a prioritised investment plan. The credibility of the national plans has also been tested through gradual tariff increases and through implementation of demand side measures to reduce water wastage.	A
Colombia		
MULTI/SustDev/CO #19	The project responded to a demand from FINDETER to benefit from large-scale TA to accompany its urban development operations. It has supported the 2010-2014 and 2014-2018 Colombian National Development Plans, which outline government objectives, goals and strategies for economic development. Recognizing local differences, these plans have a regional focus. The actions financed through the LAIF at regional level have also well fitted with regional priorities. For instance, the renovation of the central market in Monteria is one of the strategic initiatives of the municipal Development Plan and of the 2032 Action plan. The mayor considers this renovation a high priority to tackle social and economic problems in the city because the surroundings of the market have presented serious social difficulties such as drug trafficking and hygiene problems.	A
WASH/IWRM/CO #20	The project responded to a demand from the Ministry of Environment and Sustainable Development to support the monitoring and implementation of the Integrated Water Resource Management (IWRM) sector policy. It supports in particular the 'Horizon 2014 IWRM hydrologic plan'. It is aligned with the 2014-2018 National Development Plan and the National Policy document "Conpes 3801/2014" that establishes the political and economic guidelines for the intervention in Lake Tota. At local level, the pilot project of Lake Tota is aligned with the Department Water Plan (PDA), the Corpoboyacá plan, the basin development and management plan (POMCA) and the Water Resource Management Plan (PORH).	B

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
	However, Lake Tota is not a priority basin for Colombia. The project was still relevant to support as a demonstrative experience on conflict resolutions and other high-mountain ecosystems in the country.	
Republic of Congo (Brazzaville)		
TRANS/PAPN/CG #41-42	The project pointed at extending and developing the Port of Pointe Noire infrastructure. It contributed to the implementation of the National Transport Plan (NTP), sectoral national policy, adopted in 2005 by Congolese authorities with the technical support of the EU. This NTP referred explicitly to rehabilitation of the Port of Pointe Noire.	A
Egypt		
ENER/PowerTrans/EG #31	These two blending projects supported and were aligned with national policies for supporting energy sector: all components are priority schemes to be implemented over the period 2010-2014, and are part of the comprehensive Transmission Network Master Plan that the promoter developed in 2009. The government itself, although initially reluctant to follow through with the reforms did take significant action once the government changed. This is evidenced by an increase in tariff by 35% and by the passing of legislation to allow independent power producers and the issuing of calls for proposals for renewable energy production.	A
ENER/Wind Farm/EG #32		A
WASH/IWSP/EG #14	The blending project supported the water sector – it followed the priorities of Egypt's current National Environmental Action Plan. Water quality was presented as an important tool for Government of Egypt social policy objectives and as an essential component of the infrastructural setting required to attain high economic growth rates. (Country Strategy Evaluation – Egypt – 2010). The government has indicated its commitment to the policy environment through gradually encouraging a greater degree of decentralisation and through modest tariff increases. There are however still significant reforms that need to be implemented.	B+
Georgia		
Georgia Batumi Water	There is evidence that these projects are aligned with policy priorities from the IFIs, donors and Government: blending is focused on capital intensive energy (Georgia Enguri Hydro and Georgia Power transmission) and	B

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
Georgia Power transmission	water/sanitation (Georgia Batumi Water) which is in line with Government policy. A clear national development plan was not established at the date of the projects but sectors mentioned above were considered later in the Social-economic Development Strategy of Georgia (2014-2020).	B
Georgia Enguri Hydro		B
BANK/EFSE/MC #36	The State Strategy for Regional Development of Georgia for the period 2010-2017 is no more available, as the Social-economic Development Strategy of Georgia was elaborate for 2014-2020. Therefore it is not evident to examine the alignment. However, considering interviews made during field visits, it appears that these projects were not aligned with national policies.	B
IND/SME Facility/REG #12		B
Kenya		
Kenya Lake Turkhana Wind	Projects aligned well with the energy sector policies of Kenya. Kenya Vision 2030 and the Second Medium Plan (SMP) 2013-2017 identify energy as one of the infrastructure priorities: access to competitively-priced, reliable, quality, safe and sustainable energy in a "clean, secure and sustainable environment" is essential for achievement of the Vision[38]. Indeed, the SMP confirms critical linkages between environment and energy. For instance, Lake Turkana Wind was clearly referred to as a project in the National Electrification Program. In addition the SUNREF credit line served to broaden the financial sector which was in line with the Central Bank policy for the financial sector.	A
ENER/Env.Credit lines/REG #43-44		A
Moldova		
TRANS/PublicTrans/MD #10	This project was aligned with municipality's policy objectives. Indeed, the Municipal Public Transport Strategy approved in 2006 stated the procurement of 20 trolleybuses yearly. However, in 4 years only 20 trolleybuses were procured. In 2011, as a result of the Chisinau Public transport project implementation, the transport company bought 102 trolleybuses, which actually covered what has been planned in the 2006 strategy.	A
WASH/IWSS/MD #11	The feasibility study for improvement of Water and Sanitation Systems in Chisinau was in line with the National Strategies on Water Supply and Sanitation (approved in 2007 and in 2014) and overall Country Strategies for the period 2005-2014 in which, water priorities are referenced in local and regional development priorities actions (Activity Program	A

[38] Second Medium Term Plan (2013-2017), found at vision2030.go.ke

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
	Government of the Republic of Moldova European Integration: Freedom, Democracy, Welfare 2011-2014).	
TRANS/RoadRehab/MD #29	According to the Strategy Moldova 2020 (approved in 2012), the road infrastructure is one of the main constraints of the economic development of the country. The Moldova Road rehabilitation project fits with sectoral and national strategies and policies (Land Transport Infrastructure Strategy 2008-2017; Transportation and Logistic Strategy 2013-2022), which contain direct references to NIF financing.	A
BANK/EFSE/MC #36	The 2 regional projects dedicated to SMEs are aligned with national strategies that include as objectives the development of SMEs and the facilitation of their access to finance (NDS 2008-2011, Moldova 2020). Furthermore, the sector strategy for SMEs development (2012-2020) contains as priorities "improving access of SMEs to finance", "enhance competitiveness of SMEs" and "development of SMEs in regions". Both regional projects support these objectives by both building and reinforcing the operational and financial capacities of financial institutions operating on the SME segment.	A
IND/SME Facility/REG #12		A
Morocco		
ENER/O.SolarPlant/MA #15	The promoter, on behalf of the Kingdom, invited a range of donors and partners to take part to the financing of the Noor solar plants. The blending project contributes to the financing of the first part of the Moroccan Solar Plan launched in 2009. The Moroccan Solar Plan is the cornerstone of the country's renewable energy strategy and is one of the key priorities of the Kingdom. It is also part of the Mediterranean Solar Plan, which is one of the priority projects of the Union for the Mediterranean.	A
WASH/PNA-ONEP/MA #30	The project directly supports the implementation of the Moroccan National Sanitation Programme (PNA) launched in 2006. This sanitation programme is however not part of priority programmes of the Kingdom.	B
ENER/SEFF/MA-JO #35	The project supports on-lending to private sector sub-borrowers in Morocco and Jordan in support of energy efficiency and renewable energy projects. It is in line with the Moroccan laws and code in the field of renewable energy and energy efficiency.	B+
Mozambique		
TRANS/Airport/MZ #25	The examined blending projects were aligned with GoM national policies as they supported PARPA (Action Plan for the Production of Absolute Poverty) transport infrastructure objectives, by constructing air-side infrastructure (TRANS/Airport/MZ #25) and fulfilling traffic demands of Mozambique and neighbouring countries (TRANS/Corridor/MZ #26).	A
TRANS/Corridor/MZ #26		A
Namibia		

Project	Degree of alignment of the 32 projects visited in the field with national/regional policies	Category of alignment[37]
ENER/C.Intercon/NA-ZM #1	The project examined focused on energy supplies for Namibia. Even if the third National Development Plan 2007-2011 referred to the extension of the urban electricity network, this project still relevant and thus, was in line with GoN policy objectives.	B
TRANS/PortWalvis/NA #4	The improvement of Walvis Bay Port infrastructure was at the core of transport sector objectives in Namibia National Development Plan. The blending project dedicated to this Regional Hub was aligned with GoN national policies.	A
TRANS/MasterPlan/NA-REG #5	The development of a Master Plan for Ports Infrastructure was mentioned in Namibia Third National Development Plan 2007-2011. However, the grant support has provided a master plan for investment mainly road and rail subsidies which has been developed further with the preparation of the Master Plan for Development of an International Logistics Hub. Thus, the blending project examined fitted with GoN national policies.	B
Uganda		
WASH/LVWATSAN/UG #27-28	The project aligns directly with Government policy pledges to provide quality potable water to all of Kampala including peri-urban areas where the poorer segments of the urban population live. In addition, the project aligns with the full supply-chain approach to water provision – starting with and including management of catchment areas through to the sanitation and treatment of waste water. In addition the project is intended to be the first of more such projects for the other urban centres along the shores of Lake Victoria within Uganda as well as the other three countries fronting the Lake (Kenya, Tanzania and Rwanda) which aligns the project with the regional policies of the EAC – East African Community.	A
West Africa		
ENER/ERERA/REG #3	The support to ERERA and the WAPP Master Plan were considered priorities by ECOWAS, as foundations for a regional energy market.	A
ENER/WAPP/REG #2		A
Benin-Togo Power Rehabilitation Project (LCO component)	In both Benin and Togo, there is no national sector policy or strategy in the field of energy. However, energy is a priority sector for both governments, as evidenced by interviews with national authorities and other stakeholders. The governments of Benin and Togo strongly support the EU blending projects in the field of energy.	B+
Benin Atlantic project		B+

Source: ADE on the basis of project documentation and interviews held in the field with key informants

I-2.3.3 Alignment of blending projects to EU priorities at country level

To examine the degree of alignment of blending projects with EU strategies at country/regional level, we focused on the 12 countries we visited during the field visits. We identified, for these 12 visited countries, the focal sectors identified by the EU in the Country/Regional Strategy Papers and National/Regional/Multi-annual Indicative Programmes (2007-2013 & 2014-2020) and compared them with the sectors of intervention of the 32 blending projects that are listed in the inventory of blending projects (2007-2014). We used a ranking scale ('A', 'B+', 'B', or 'C') so as to determine the degree of alignment, as further detailed in the below table.

In the 12 countries visited, blending projects blending projects visited in the field focused on the EU priority areas of action in support of: socio-economic development, including competitiveness (Armenia, Egypt, Georgia, Moldova, Morocco); regional economic integration (Mozambique, Kenya, Western Africa); agriculture and rural development (Kenya, Namibia); peace and stability (Colombia); physical reconstruction (Republic of Congo); and environmental protection (Morocco).

We see from the below table that blending projects were often (21 cases out of 32 or 66%) aligned with the priority areas defined in the EU strategies at country/regional level (score 'A'). This means that the projects often aimed to contribute to the main objectives pursued by the EU in the sectors defined as priority in EU official cooperation documents (CSPs/NIPs/MIPs). For instance, the Port of Pointe Noire project (TRANS/PAPN/CG #41-42) fitted the regional integration EU priority area and is explicitly mentioned in the 2008-2013 EU-Republic of Congo NIP as the main priority for the EU in the field of transport infrastructure. In some cases (11 out of 32 cases or 34%), blending projects only indirectly fitted with EU priority policy objectives (score 'B+' or 'B'). This mostly lies in the fact that EU priority areas are wide and easily encompass a diverse range of sectors. For instance, the EU CSPs/NPs for Armenia do not precisely refer to solid waste management (WASH/KotaykSW/AM #13) or water supply and sanitation services (WASH/SMWP/AM #33) but refer instead to education and social services such as health facilities and childcare.

Table 20 – Degree of alignment of the 32 projects with EU priorities

Project	Degree of alignment of the 32 projects visited in the field with EU priorities at country/region level	Category of alignment[39]
Armenia		
Priority areas (2007-2013) with % of EU total budget*	**Priority areas (2014-2020)**	
• **Democratic structures and good governance** (rule of law and reform of the judiciary, public administration reform, human rights and civil society development) (33%) • **Trade and investment, regulatory alignment and reform** (market and regulatory reform, business environment, taxations and customs, integrated border management) (27%) • **Socio-economic reform and sustainable development** (regional and rural development, transports, energy, environment, electronic communication, education, sciences, social services) (40%)	• **Private sector development** (35%) • **Public Administration reform** (25%) • **Justice Sector reform** (20%)	
TRANS/MetroRehab /AM #9 (2010)	This transport project was aligned with the EU focal sector of socio-economic reforms. The NIP 2011-2013 specifically mentioned actions aiming at improving local infrastructure in the area of transport (NIP 2011-2013).	B+
WASH/KotaykSW/AM #13 (2011)	This project aimed at implementing solid waste management. It seemed relevant in terms of basic social services even if the CSPs/NIPs don't precisely refer to this activity. The documents refer instead to education and social services as health facilities and childcare.	B
WASH/SMWP/AM #33 (2010)	The municipal water project aimed at improving water supply and sanitation services. It is relevant in terms of providing basic social services even if the CSPs/NIPs don't precisely refer to this activity. The documents refer instead to education and social services as health facilities and childcare.	B
Colombia		
Priority areas (2011-2013)	**Priority areas (2014-2017)**	
• **Peace and stability, including alternative development** (strengthening social networks and local institutions, socio economic conditions for alternative development) (66%) • **The rule of law, justice and human rights** (implementation of the new accusatory penal system, institutions coordination) (19%) • **Competitiveness and trade** (local economic development, reducing non-tariff trade barriers for Colombian exports) (15%)	• **Local development and institution building** (80%) • **Sustainable trade and investment** (15%)	
MULTI/SustDev/CO #19 (2013)	The project aimed to facilitate access to long-term financing for intermediary and fragile cities. It did not fit with EU priorities as reflected in the 2007-2013 Country Strategy Paper (CSP). EU interviewees confirmed that the project did not fit with the EU portfolio during the period but that it was nonetheless relevant to the priorities supported by the national authorities. Besides, the project, signed in 2013 and implemented until 2017, fits well with the first EU focal area under the 2014-	B

[39] Category A: the project objectives and set-up are aligned with EU priority policy objectives in country/region level. Category B+: the project objectives and/or set-up are essentially aligned with EU priority policy objectives in country/region level. Category B: the project objectives and/or set-up address indirectly EU priority policy objectives in country/region level or address policies with a lower priority level. Category C: the project objectives and/or set-up face serious issues of alignment with EU priority policy objectives in country/region level.

*Percentage of EU total budget according to the National Indicative Programme for the period.

	2017 EU Multiannual Indicative Programme (local development and institution building) which aims to reduce territorial disparities.	
WASH/IWRM/CO #20 (2013)	This project supports the implementation of the Integrated Water Resources Management (IWRM) policy. It is aligned to EU policies since it falls under the first priority area of the 2007-2013 CSP: peace and stability. Indeed, the unequal distribution of water as well as the deterioration of water quality has been a source of tensions generating conflicts amongst water users in Colombia. The project aims to foster participatory management in a context of local dispute. Moreover, the project falls under the focal area of the 2014-2017 EU MIP: local economic development, where the EU support aims to increase social and environmental protection, in particular at regional or municipal levels. However, there has been no linkage between the IWRM project and relevant EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia.	B+
Republic of Congo		
Priority areas (2008-2013)	**Priority areas (2014-2020)**	
• **Regional integration** (transport infrastructures, economic diversification) (67%) • **Governance** (public finances, economic, commercial and environmental governance) (19%)%)	• **Local Development** (75%) • **Economic and commercial governance** (20%)	
TRANS/PAPN/CG #41-42 (2009)2009)	The project fitted the regional integration priority area. It aimed at extending and developing the Port of Pointe Noire infrastructure. The NIP 08-13 clearly refers to the Port of Pointe Noire's Priority Investment Program as the main priority in the field of transport infrastructure. Thus, this project was aligned with EU priorities in Congo.	A
Eastern Neighbourhood Region (Georgia, Moldova)		
Regional priority areas (2008-2013)	**Regional priority areas (2014-2020)**	
• **Networks (Transports, Energy, SME Regional Cooperation)** (25-35%) • **Environment protection and forestry** (25-35%) • **Border and Migration Management, the Fight against Transnational Organised Crime, and Customs** (20-30%) • **People-to-people Activities, Information and Support** (10-15%) • **Landmines, Explosive Remnants of War, Small Arms and Light Weapons** (5-10%)	• **Eastern Partnership** (Support the political association process, contribute to economic integration and sector cooperation, enhance civil society's role) (75%) • **Regional framework** (Sustainable development and the improvement of the environment, Infrastructure development and network interconnections) (10%) • **Horizontal and sectoral support to regional cooperation** (10%) • **Energy and transport initiatives involving the wider region** (5%)	
BANK/EFSE/MC #36 (2009)	These two regional projects were dedicated to enhance SMEs financing. They, therefore, were aligned with the 3rd sub-sector of the first priority in the ENPI Eastern indicative programme (20072013). Indeed, this sub-sector aimed at "bring closer cooperation between partner country SMEs so as to enhance sustainable economic development".	B+
IND/SME Facility/REG #12 (2010)		B+
Egypt		
Priority areas (2007-2013)	**Priority areas (2014-2020)**	
• **Sustainable development** (education, water, waste management local community development) (50%)	• **Poverty alleviation, local socio-economic development and social protection** (40%) • **Quality of life and environment** (40%)	

• **Egyptian competitiveness and productivity** (trade and custom reform, transport and energy) (41%) • **Democracy, human rights, good governance and justice** (9%)	• **Governance, transparency and business environment** (20%)	
ENER/PowerTrans/ EG #31 (2010)	The blending project supported EU commitment in energy sector reform in Egypt by increasing and improving access to electricity in rural areas. Indeed, an expected result mentioned in the NIP was a reliable supply of electricity to Egyptian customers. This project was also in the line of developing of Egyptian competitiveness and productivity.	A
ENER/Wind Farm/EG #32 (2008)	The purpose of this blending project was to improve the energy mix and security of supply. The EU recognized Egypt's potential in renewable energy production from wind and solar. This project was aligned with EU priorities in Egypt as it allowed to increase the share of energy produced from renewable resources, an indicator of achievement of the second focal sector.	A
WASH/IWSP/EG #14 (2008)	The blending project was directed to water sanitations services. It supported EU commitments in the water sector (2nd sub-priority of the sustainable development focal area). One of the expected results was an effective treatment of wastewater.	A
Georgia		
Priority areas (2007-2013)	**Priority areas (2014-2020)**	
• **Democratic development, rule of law and governance** (Democracy, human rights, civil society development, rule of law and judicial reform, good governance, public finance reform and administrative capacity building) (26% in 2007-2010 and 25-35% in 2011-2013) • **Economic development and ENP AP[40] implementation** (Promoting external trade and improving the investment climate, supporting PCA/ENP AP implementation and regulatory reforms, education, science) (26% in 2007-2010) • **Trade and investment, regulatory alignment and reform** (15 – 25% in 2011-2013) • **Poverty reduction and social reforms** (Strengthening social reforms in health and social protection, rural and regional development) (32% in 2007-2010 and 35-45% in 2011-2013) • **Peaceful settlement of conflicts** (16% in 2007-2010 and 5-10% in 2011-2013)	• **Agriculture and Rural Development** (30%) • **Public Administration Reform** (25%) • **Justice Reform** (25%)	
Georgia Batumi Water (2011)	The project objective was to provide water supply to all households on water/sanitation in the city of Batumi. It supported the 2nd and 3rd EU focal areas: a) it enabled stronger economic development in Batumi following regular delivery of quality water e.g. growth in tourism and construction; and b) the project covered all areas of the city providing access to basic services in rural and poor urban communities..	A
Georgia Power transmission (2008)	The project supported energy sector as it improved regional infrastructure - building power lines. In Infrastructure and energy sectors, EU priority was to "enhance the safety and security of the energy transport infrastructure". The project achieved a) a renewed and expanded power transmission grid which complied with EU environmental standards and b) linked the Georgian power grid to Turkey – enabling	A

[40] (European Neighbourhood Policy Action Plan)

	the export of surplus 'green' electricity (hydro-power) and thereby supporting economic development.	
Georgia Enguri Hydro (2010)	The project supported the 2nd focal area (2011/2013) as it focus on restoration a major renewable energy facility. The achievements included a) making safe the world's second highest dam and b) re-commissioning the turbines to re-start the supply of renewable hydro-power.	A

Kenya		
Priority areas (2008-2013)	**Priority areas (2014-2020)**	
• **Regional economic integration by means of transport infrastructure** (road sub-sector and connectivity) (33%) • **Agriculture and rural development** (sustainable development, environmental management practices) (26%) • **Macroeconomic support** (poverty reduction, macroeconomic stability, financial sector) (33%)	• **Food security and resilience to climatic shocks** (Agriculture, Livestock and Fisheries, Environment, Water and Sanitation and ASAL) (44%) • **Sustainable Infrastructure** (40%) • **Accountability of Public Institutions** (Governance and Rule of Law) (14%)	
Kenya Lake Turkhana Wind (2013)	The project focused on a major switch to renewables energies and increasing Kenya's electrification rate. It fitted well with EU priorities in Sustainable Infrastructure, and through the planned CSR component of the project will also provide support to the local community and their livelihoods in a remote region of Kenya.	A
ENER/Env.Credit lines/REG #43-44/13 (2010)	The project supported renewables energies sector as well as private sector. It aimed at mobilise private sector funding for energy efficiency and renewable energy projects. It indirectly fitted well with EU priorities in Sustainable Infrastructure as the final goal is increasing the use of renewable energies.	B

Moldova		
Priority areas (2007-2013)	**Priority areas (2014-2020)**	
• **Support for democratic development and good governance** (public administration reform, rule of law and judicial reform, human rights, civil society development and local government, education, science) (30% sur 2007-2010, et 35% sur 2011-2013) • **Support for Regulatory Reform and Administrative Capacity Building** (promoting mutual trade, improving the investment climate and strengthening social reform) (20% sur 2007-2010) • **Support for Poverty Reduction and Economic Growth** (education, health, regional/municipal infrastructure and economic development) (50% sur 2007-2010, et 25% sur 2011-2013) • **Trade and sustainable development** (regional and local development, environment & energy efficiency/renewable energy and diversification) (40% sur 2011-2013)	• **Public administration reform** (30%) • **Agriculture and rural development** (30%) • **Police reform and border management** (20%)	
TRANS/PublicTrans /MD #10 (2010)	This project objective was the modernization of the trolleybus fleet in Chisinau. It was in line with EU support for poverty reduction and Economic growth as the NIP 2007-2010 mentioned the modernisation of municipal and regional infrastructure with a focus on road rehabilitation.	A

WASH/IWSS/MD #11 (2009)	This project aimed to improve water and sanitation systems in Chisinau. It was in line with EU support for poverty reduction and economic growth as the NIP 2007-2010 mentioned the modernisation of municipal and regional infrastructure with a focus on water supply and sanitation systems as expected results.	A
TRANS/RoadRehab/ MD #29 (2008)	This project aimed at improving Moldova's infrastructure. It was in line with EU support for poverty reduction and economic growth as the NIP 2007-2010 mentioned the modernisation of municipal and regional infrastructure with a focus on road rehabilitation. The national road strategy process is ongoing and should finish by mid-2017.	A
Morocco		
Priority areas (2007-2010)	**Priority areas (2014-2020)**	
• **Social sector** (health, education, social protection) (33%) • **Economic modernization** (PSD, industry, agriculture and fisheries, transport, energy, environment for investments, competition and open market economy) (24%) • **Institutional support** (22%) • **Environmental protection** (waste management, water resources protection etc.) (11%) • **Good governance, human rights** (9%)	• **Equitable access to basic social services** (30%) • **Support to democratic governance, the Rule of Law and mobility** (25%) • **Jobs, sustainable and inclusive growth** (25%)	
ENER/O.SolarPlant/ MA #15 (2011)	The two projects directly fit within the 'economic modernization' EU priority area. The NIP 2007-2010 includes the sector of renewables energies as a EU sub-priority, contrary to the following NIP. In the first NIP, the EU aim was to enhance the adoption of reforms in the Moroccan energy sector with a view to its integration into the Euro-Mediterranean, and to favour the development of renewable energy resource. The next NIP does not emphasize renewable energy. It only briefly mentions renewable energy when stressing the importance of projects in the field of renewables energy in EU support in MENA.	A
ENER/SEFF/MA-JO #35 (2013)		A
WASH/PNA-ONEP/MA #30 (2010)	The project fits within the EU priority areas linked to social policies (health) as well as economic modernization (infrastructure) and environment protection.	A
Mozambique		
Priority areas (2008-2013)	**Priority areas (2014-2020)**	
• **General budget support** (48%) • **Transport infrastructure and regional economic integration** (socio-economic growth, trade, regional integration…) (21%) • **Agriculture, rural development and regional economic integration** (public services, food insecurity, sustainable management of natural resources, water related infrastructure, rural electrification) (14%)	• **Good governance and Development** (support to public financial management, consolidation of democracy, accountability and rule of law) (50%) • **Rural development** (improve food security and nutrition status, enhance rural competitiveness) (44%)	
TRANS/Airport/MZ #25 (2011)	The examined project aimed to construct air-side infrastructure. It was aligned with the main priority of EU in Namibia, which is transport infrastructure and regional economic integration. It was referenced in the NIP 2008-2013 that specific attention will be paid to "improving the opportunities for intermodal transport integration (railways, waterways, and aviation) in order to improve efficiency and safety and reduce transport costs".	A

TRANS/Corridor/MZ #26 (2008)	The examined project aimed to fulfil traffic demands of Mozambique and neighbouring countries. It was aligned with the main priority of EU in Namibia, which is transport infrastructure and regional economic integration. It was referenced in the NIP 2008-2013 that the second main action to achieve objectives was the rehabilitation and development of the regional corridors and other vital infrastructure.	A
Namibia		
Priority areas (2008-2013)	**Priority areas (2014-2020)**	
• **Rural development** (Support for land reform, rural water supply, road construction) (44%) • **Human resources development** (General education, training, information…) (41%)	• **Education and Skills Development** (Early childhood development and pre-primary education, vocational education and training) (53%) • **Agriculture** (strengthen livestock value chain in communal areas and support for entrepreneurship) (29%)	
ENER/C.Intercon/NA-ZM #1 (2008)	The project examined addressed the securing of energy supplies for Namibia. Energy sector seemed important in EU strategic objectives of cooperation in Namibia but actions-related didn't appear clearly in the NIP. However, a recommendation was mentioned to include support to energy supply.	B
TRANS/PortWalvis/NA #4 (2009)	The blending project examined aimed at reducing transports costs in Namibia. Transport sector through road construction is one of the sub-priority of EU focal sector (Rural development). This project couldn't fit evidently the area but can be align with one of the 11 priority identifies by the Commission in line with the development policy objectives (trade/regional integration).	B
TRANS/MasterPlan/NA-REG #5 (2010)	The blending project examined aimed to prepare an Integrated Transport Master Plan (ITMP) for Namibia. The grant support in preparation of the ITMP has provided a master plan for short and long-term investment (mainly road and rail subsidies) which has been developed further with the preparation of the Master Plan for Development of an International Logistics Hub. This project was aligned with the EU sub-priority of roads construction.	A
Uganda		
Priority areas (2008-2013)	**Priority areas (2014-2020)**	
• **Transport infrastructure** (39%) • **Rural development** (production and productivity in agriculture, rural livelihoods and incomes) (14%)	• **Transport infrastructure** (40%) • **Good governance** (29%) • **Food security and agriculture** (22.5%)	
WASH/LVWATSAN/UG #27-28 (2010)	By providing potable water and sanitation improvements to all areas of Kampala, including fringe areas, as well as by improving water treatment quality for waste water disposal into Lake Victoria, and by managing the rain catchment areas, the project makes some indirect contributions to rural development and livelihoods.	B
West Africa		
Regional priority areas (2008-2013)	**Regional priority areas (2014-2020)**	
• **Deeper regional integration, improved competitiveness and EPA** (Economic Partnership Agreement) (70%) • **Consolidation of good governance and regional stability** (20%)	• **Regional economic integration and support for trade** (50%) • **Resilience, food and nutrition security and natural resources** (26%) • **Peace, security and regional stability** (22%)	

Benin-Togo Power Rehabilitation Project (LCO component) (2009)	The project (decided in 2009) aimed at rehabilitating key parts of the energy transmission network in Benin and Togo. It was in line with the EU's overall regional economic integration objective. The development of energy production, trade and commercial capacity between the member States and in urban areas (electricity and gas), was explicitly planned in the RIP 2008-2013.	A
ENER/ERERA/REG #3 (2013)	The projects were in line with the Regional Indicative Programme (2008-2013) for West Africa which planned to support the energy sector within a regional policy of interconnectivity and better infrastructure. The support to the set-up of the regional regulatory authority ERERA and the revision of the regional energy master plan WAPP were considered as relevant in terms of priorities by stakeholders met, as foundations for a regional energy market.	A
ENER/WAPP/REG #2 (2009)		A
Benin Atlantic project (2013)	The project (decided in 2013 and starting in 2016) aims at providing reliable electricity to a dormitory suburb of Cotonou and rural villages of the Atlantic province in Benin. It was in line with the third EU focal sectors in Benin: modern and sustainable energy (NIP 2014-2020). It is also aligned with EU regional objectives in terms of energy (see above).	A

3 EQ 3: Financial efficiency

Has blending used the right level of grants?

Judgement Criteria	Indicators
3.1 Existence and application of a calculation methodology for proposing the required grant size	1. Existence of a calculation formula 2. Application of the calculation formula
3.2 Extent to which blending generated financial leverage	1. Levels of financial leverage for the sample of projects 2. Role of the EU grant in leverage 3. Levels of financial leverage per instrument
3.3 Effects of blending on the EU development assistance 'footprint'	1. Trends of EU development assistance without blending relative to key ODA donors 2. Trends of EU development assistance with blending relative to key ODA donors

3.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

1 First, review the calculation methodology applied to determine the amount of grants: ▪ Check through the methodology(ies) of calculations that exist for each different type of grant ▪ Assess grant sizes and judge whether these result from calculations or other processes ▪ Analyse interview quotes about how the grant amount was determined
2 Assess the extent to which blending generated financial leverage: ▪ Calculate the leverage for the sample projects - including leverage per instrument - and assess the frequency distribution around the average to see how representative the average is and if there is any discernible pattern ▪ Disentangle the role of the EU grant in financial leverage through the following steps: - Quantify the number of sample projects where the EU grant is part of a broader package of other grants - Quantify the EU grant leverage and total grant leverage for those multi-grant projects - Assess the extent of causality through a qualitative approach – whether the EU grant a) caused/mobilised additional funding b) unblocked funding already earmarked but 'stuck' or frozen and/or c) reallocated project investment to reach other objectives e.g. social or climate.
3 Assess the effects of blending financial leverage on the EU development assistance 'footprint': ▪ Examine past trends and current forecasts of aid development assistance of key ODA donors and compare them to the EU development assistance *without* blending financial leverage ▪ Examine past trends and current forecasts of aid development assistance of key ODA donors and compare them to the EU development assistance *with* blending financial leverage

Rationale for the EQ:

A brief reminder of some key background information about blending serves to set the stage for this EQ. Blending is expected to make its contribution by effecting a simple form of financial engineering where a grant is tailor-mixed into a loan package in order to:

- Mobilise more financing (crowding in financing that otherwise would not be forthcoming);
- Enable previously earmarked financing to be formally approved and committed to the project; and /or
- Direct funding to different purposes such as social dimensions, climate considerations and others (usually linked to changes in project concept and designed to make a project more policy-compliant).

This EQ examines the extent to which blending, as a 'financial engineering' mechanism, set the grants at the right level to achieve one of the three above-mentioned effects: to mobilise more money, to unblock money already earmarked, or to re-direct money to improve policy compliance.

Firstly, it assesses whether calculation methods were available and applied to quantify the required grant accurately. Secondly, it examines the extent to which blending generated financial leverage (defined as investment leverage ratio, that is the ratio between the total project cost and the EU grant. Note: this ratio does not imply causality.). Lastly, it focuses on the extent to which blending allowed to increase the EU's potential sphere of influence on development assistance (or 'footprint').

Detailed sample of projects:

Beyond the general-level analysis this EQ proposes, it draws on the examination of both 40 projects selected for in-depth review during the desk phase and 32 projects that were visited during the site visits. These 32 projects are the same than the ones examined for EQ1 and EQ2 and are listed under EQ1. They mostly include projects reviewed during the desk phase as well as additional projects examined by the team during the field visits as explained under EQ1.

3.2 Evaluation question

Summary

- There are calculation methodologies for proposing the required grant size, but they have generally not been applied. Rather, a mix of pragmatic and quantitative considerations has influenced the grant amount.
- As an arithmetic ratio (with no implication for causality), blending has had a high average leverage ratio between the EU grant and total financing of around 20. However, the actual contribution of the EU grant has laid in its effects on a) mobilising additional funding, b) enabling previously earmarked financing to be formally approved and committed to the project, and/or c) directing funding to policy-compliant objectives
- Blending enabled the EU to have wider positive potential effects on the EU 'footprint' in global development assistance.

There are calculation methodologies for proposing the required grant size, but they have generally not been applied. Rather, a mix of pragmatic and quantitative considerations has influenced the grant amount. For each of the blending instruments, there is a clear analytical calculation method that results in a relatively exact figure for the required grant size (see JC3.1).. However, these calculations methods have generally not been applied during the evaluation period. In the early days of blending, the grant amounts have been partly 'supply driven' by the funds the Facility could allocate to the projects, hence the grant amount often resulted in 'rounded' numbers. But it should also be noted that rounding project costs is standard practice in project financing because a range of future costs can only be estimated. More generally, the field visits show that assembling the financial package has rather been a mix of pragmatic and quantitative considerations, especially of: i) calculation to meet a shortfall in financial viability; ii) estimation of the needs in terms of TA together with the beneficiaries; iii) calculation to provide finance on equal or better terms than other non-EU IFIs, iv) negotiation with the government, including to meet the IMF concessionality requirement; and v) negotiation with the EU according to the availability of funds within the facilities. Lately, with the changes brought to the blending guidance framework in 2014, steps were made to make the calculation of the grant amount more technical and transparent. The effect of these changes remains to be examined in the near future.

As an arithmetic ratio (with no implication for causality), blending has had a high average leverage ratio between the EU grant and total financing of around 20. However, the actual

contribution of the EU grant has laid in its effects on a) mobilising additional funding, b) enabling previously earmarked financing to be formally approved and committed to the project, and/or c) directing funding to policy-compliant objectives.

For the full portfolio of blending projects implemented during the period 2007-2014, the EU investment leverage ratio (defined as the ratio between the total project cost and the EU grant) is 23. This leverage ratio is an *arithmetic ratio* that does not demonstrate any causality. Digging into the average leverage ratio across the different types of grants under the sample of 40 projects, one can notice that the averages are not remarkably different for three of the grant types – investment grant, IRS and risk capital – that are all displaying a leverage ratio of around 15. Still, investment grants were considered by the EUD respondents to the survey as being more successful than IRS and guarantees to mobilise additional funding. A leverage of 23 is high and by far exceeds typical leverage ratios in project finance of 5-7. This is explained by i) the role that blending grants play to resolve the 'specific challenges' discussed under EQ1; ii) the fact that blending is prominent in high cost capital intensive infrastructure projects – so almost by definition the leverage ratio is high; and iii) the fact that the EU grant is not the only source of grant funding. For multi-grant blending projects (17 projects out of the 32 visited), the full grant leverage ratio (comprising both EU and other donors grants) is inferior to the average EU leverage ratio.

The EU grant has generally played a specific role in exerting leverage for the 32 projects visited by the team. The close review of the 32 projects visited by the team shows that in most cases examined (28 out of 32) the EU grant has either a) mobilised additional funding; b) enabled previously earmarked financing to be formally approved and committed to the project; and/or c) allocated project investment to reach other policy objectives (see below table). The most prominent effect has been the mobilisation of additional funding which has been reckoned in half of the cases reviewed. This suggests that there are cases where the EU grant has played a *causal role* in generating additional financing for those projects.

Table 21 - What was the role of the EU grant in leverage?

The EU grant has …	Illustrative examples
a) Mobilised additional funding in half of the cases reviewed (16/32)	▪ BANK/EFSE/MC #36: at Fund level, EU 'C' shares have attracted over €400 million in specialist private funding for EFSE ▪ ENER/SEFF/MA-JO #35: the EU investment grant was decisive to pool the funds of the EU IFIs and of the largest Moroccan banks to promote private sector investments in sustainable energy ▪ TRANS/Corridor/MZ #26: IRS was critical for capital investment to proceed including facilitation of equity and shareholder loans for the rail component of the Beira corridor ▪ WASH/IWSS/MD #11: in Moldova, the NIF grant was, at that time, the sole alternative to have the necessary funding resources for the water sector.
b) Directed funding to policy-compliant objectives (e.g. social, climate change, etc.) in 34% of the cases (11/32)	▪ ENER/C.Intercon/NA-ZM #1: for the Caprivi Interconnector project, a thermal plant was planned, but the IRS helped switch this to renewable energy (hydro) ▪ ENER/PowerTrans/EG #19: the funding enabled the evacuation of power from a large wind farm thus assisting in climate change. It also ensured that sub-stations targeted relatively deprived areas in bringing more reliable ▪ WASH/SMWP/AM #21: the project focused on rural and secondary towns thus contributing to the reduction of regional disparities ▪ WASH/KotaykSW/AM #10: the project, which has not yet started, has been designed with the intention to have a climate change effect through generation of methane from waste
c) Enabled previously earmarked financing to be formally approved and committed to the project in 28% of the cases (9/32)	▪ Lake Turkana project in Kenya: the funding (€600m) was ready but not yet committed to the project due to a €25m mezzanine equity financing gap that has been filled by the ITF
Had a combination of a), b) and/or c) effects (8/32)	▪ Benin Atlantic project: the grant permitted to reach an acceptable concessionality level and to include a rural electrification component (a) and c) effects) ▪ ENER/O.SolarPlant/MA #15: equity financing could only be financed through a grant, and the promoter could not have had access to a grant of this size (€30 million) through other sources. Moreover, the financing was there but not 'moving' due to a pricing problem that has been resolved by both the NIF grant and the contribution of the Government of Morocco (a) and b) effects).

Blending offered the EU opportunities to have wider positive effects on the EU's potential 'footprint' in global development assistance. The share of the EC budget[41] in total ODA was 5% during the period 2007-2014, placing the European Commission as the second largest ODA provider behind the IDA of the World Bank (whose ODA is almost two times larger than the EC

[41] This includes the total amount allocated for the instruments funded by the EU budget and excludes the European Development Fund which remains outside the EU budget.

one). Therefore the EU has had influence on the use of, and objectives achieved by, 5% of global ODA. Through blending, the EU was also involved with, and got a potential 'seat at the table' of lead donors, of a further 4% of development finance. In other words, it means that blending mechanically broadened – significantly- the EU's potential '*sphere of policy influence'* or *'footprint'* in global development assistance. It is a potential way for the EU to further its policies effectively and steer other development projects – where it was not in the lead – towards the achievement of specific development objectives: e.g. climate change adaptation and mitigation; economic development through infrastructure improvement and private sector development (sometimes with pro-poor dimensions). The team could not gather evidence on the extent to which the EU has actually made use of this potential sphere of policy influence, mainly because this matter - which would merit a report of its own - falls outside the scope of this study. With EU development assistance rising during the 2014-2020 programming cycle compared to the previous 2007-2013 cycle (€51.4 billion compared to €44,9 billion), the EU's potential sphere of policy influence is likely to increase in the future to reach or exceed 'doubling' of the EU presence in development activities with blending as compared with grant-only financing of development assistance.

3.3 Judgement Criteria

JC 3.1 Existence and application of a calculation methodology for proposing the required grant size

Summary JC 3.1 Existence and application of a calculation methodology for proposing the required grant size

- Calculation methodologies of the 'right level' of grant exist
- Specific calculation formulas have most of the time not been applied to determine the grant amounts during the period 2007-2014
- Still, steps were made in making the calculation of the grant amount more technical and transparent with the evolution of the blending guidance framework in 2014

Calculation methodologies of the 'right level' of grant exist. They relate to the 'classic conditions' that favour many (non-IRS) blending projects. These classic conditions entail the combination of disappointing financial returns but attractive economic benefits. Or they imply low Financial Rates of Return (FRR) below IFI hurdle rates while the Economic Rate of Return (ERR) is strongly attractive. Calculation methods also depend on the type of blending grant as further detailed in the below figure.

Figure 3 - Calculation methods per blending grant type

Blending grant type	Basis of calculation
Direct Investment Grant	Quantitative estimate relative to quantified target e.g. reducing a tariff by 5% or 10% etc.
Interest Rate Subsidy Grant	The degree of concessionality of a loan is measured by its 'grant element'. Whenever the interest rate charged for a loan is lower than the discount rate (5%), the present value of the debt is smaller than its face value, with the difference reflecting the (positive) grant element of the loan
Technical Assistance Grant	Bottom-up estimate of what support is needed, how many person-months are needed to carry out the necessary work and thereby a cost estimate can be worked out

Risk Capital	Calculation based on financial ratios e.g. desired debt/equity ratio, or 'comfort %' for private investors (could be high e.g. 30-40%)
Guarantee	Fixed by amount and % to be guaranteed, or by actuarial loss rates and financial ratios for collective guarantees

Sources of information: Blending training material; Interviews with EU and IFI representatives at headquarters.
Quality of evidence: Strong.

Specific calculation formulas have most of the time not been applied to determine the grant amounts during the period 2007-2014. The grant amounts have been partly 'supply driven' by the funds the Facility could allocate to the projects, especially during the early days of blending. Interviews with IFI loan officials at headquarters and the fact that the amounts of the grants awarded to the 203 blending projects decided during the period 2007-2014 were very 'rounded' indicate there was a strong element of supply-side programming in determining the EU grant size. However, rounding project costs is standard practice in project financing. Finance for development projects always concerns future costs and there are a range of reasons why several of these can only be estimated. For example the costs associated with a new technology like solar panels are not always known accurately, nor can the impact of economies of scale, inflation, better procurement methods etc. always be estimated accurately. It is therefore not unusual for a project finance package to contain estimates and usually significant contingencies. Furthermore, until August 2014, the (previous) blending grant application form did not require the IFI to demonstrate the calculations underpinning the grant request. For the 32 projects the team examined in depth during the country visits, ERR and FRR information is generally not available in the project fiches. ERR calculations were made for two EIB-led projects (TRANS/Corridor/MZ #26 and Benin-Togo Power Rehabilitation project LCO component). Lastly, the findings from the field visits confirm that the level of grant was often (8 out of 12 countries) not derived from specific calculations of the optimal amount of grant. Assembling the financial package has rather been a mix of pragmatic and quantitative considerations (10 out of 12 countries), especially of: i) calculation to meet a shortfall in financial viability; ii) estimation of the needs in terms of TA together with the beneficiaries; iii) calculation to provide finance on equal or better terms than other IFIs, iv) negotiation with the government, including to meet the IMF concessionality requirement; and v) negotiation with the EU according to the availability of funds within the facilities.

Sources of information: Blending inventory of projects (2007-2014); Project fiches of the 32 projects examined during the field visits; Interviews with EU and IFI representatives at headquarters and in the field.
Quality of evidence: Strong.

Still, steps were made in making the calculation of the grant amount more technical and transparent with the evolution of the blending guidance framework in 2014. The introduction of a new application form in mid-2014 and general maturing of the screening process indicate greater emphasis on bottom up calculations of grant size based on quantified project parameters reflecting the 'grant needed'. The new application form includes 2 of 36 questions (items 27 and 34) requiring detail on grant calculation and grant justification. The item 'Key Requirements' (decision criteria) also requires a clear explanation of the use of the funds requested. Grant amounts were still 'rounded' recently (2013-2014), which indicates that calculations were still not based on bottom-up technical calculations until then.

Sources of information: Blending inventory of projects (2007-2014); Project fiches of the 32 projects examined during the field visits; Interviews with EU and IFI representatives at headquarters and in the field.

Quality of evidence: Strong

JC 3.2 Extent to which blending generated financial leverage

Summary JC 3.2 Extent to which blending generated financial leverage

- EU blending grants under the sample of 40 projects have had a high investment leverage ratio with an average of around 20, exceeding typical leverage ratios in project finance
- The EU grant has generally played a specific role in exerting leverage for the 32 projects visited by the team: it most often helped to mobilise additional funding.

EU blending grants under the sample of 40 projects have had a high investment leverage ratio with an average of around 20, exceeding typical leverage ratios in project finance (I-3.2.1 & I.3.2.3)**.** Leveraging additional public and private resources is a financial concept that can be measured as an *arithmetic ratio*. The most widely used ratio is the investment leverage ratio: it compares the value of the investment to the total amount of the EU blending facility grant. For the full portfolio of blending projects implemented during the period 2007-2014, the investment leverage ratio is 23. Digging into the leverage ratio across the different types of grants under the sample of 40, one can notice that the leverage ratios are not remarkably different for three of the grant types – investment grant, IRS and risk capital – that are all displaying a leverage ratio of around 15. Still, investment grants show a higher leverage ratio than the other types of grants. This is confirmed by the results of the EUDs survey for which respondents indicated that investment grants were more successful than IRS and guarantees to mobilise additional funding. Finally, the TA leverage ratio is high (TA amounts often being smaller than other types of grants): it equals on average 28 when one excludes a few outliers that distort the arithmetic average. A leverage of 23 is high and by far exceeds typical leverage ratios in project finance of 5-7. This is explained by i) the role that blending grants play to resolve the 'specific challenges' discussed under EQ1; ii) the fact that blending is prominent in high cost capital intensive infrastructure projects – so almost by definition the leverage ratio is high (I-3.2.1 & I.3.2.3); and iii) the fact that the EU grant is not the only source of grant funding. Half (or 17) of the 32 projects visited during the country visits are multi-grant projects. The average EU leverage ratio for the 17 multi-grant blending projects is 18, while the full grant leverage ratio (comprising both EU and other donors grants) equals on average 8. In 12 out of the 17 cases, the EU grant was superior in absolute terms to the grants awarded by other donors, hereby mechanically making the average EU leverage ratio superior to the average full investment leverage ratio (I-3.2.2).

Table 22 - Average leverage ratio per type of grant for the sample of 40 projects

Grant instrument	Average leverage ratio	Number of projects	Example of projects
Guarantee	10,80	1	EBRD-13 SME Facility - EBRD / KfW window
IG	16,03	13	MD-02 Moldova Road Rehabilitation project
IRS	14,84	3	Mauritania Submarine Cable
Risk capital	14,73	1	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)
TA *TA without outliers*	102,81 *28,00*	14	EBRD-03 Ukrenergo Corporate Sustainable Development
TA/IG	26,33	6	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I
TA/IRS	14,48	2	Port de Pointe Noire (PAPN)

Source: ADE calculations on the basis of the inventory of blending projects

Sources of information: EU guidelines for blending operations, 2015; Inventory of blending projects; project documentation; interviews with IFIs and EU in headquarters and in the field; and with beneficiaries
Quality of evidence: Strong.

The EU grant has generally played a specific role in exerting leverage for the 32 projects visited by the team: it most often helped to mobilise additional funding. In order to assess the role of the EU grant in exerting leverage, the team unravelled for the 32 projects visited in the field what the EU grant actually did: a) has it mobilised additional funding; b) has it enabled previously earmarked financing to be formally approved and committed to the project; and/or c) has it reallocated project investment to reach other policy objectives? This review shows that in most cases examined (28 out of 32) the EU grant has had at least one of these a), b), and/or c) effects. The most prominent effect has been the mobilisation of additional funding (see below table for examples). In some cases (4 out of 32), the grant did not have had any of the a), b), and/or c) effects. This concerns projects where the grant was used to finance i) feasibility studies and master plans (ENER/WAPP/REG #2; TRANS/PortWalvis/NA #4; TRANS/MasterPlan/NA-REG #5) that have not (yet) been followed-up with preparation of individual project interventions; or ii) TA in response to a demand emerging within the framework of a credit line already awarded to the beneficiary (MULTI/SustDev/CO #19).

Table 23 - What was the role of the EU grant in leverage?

The EU grant has …	Illustrative examples
a) Mobilised additional funding in half of the cases reviewed (16/32)	▪ BANK/EFSE/MC #36: at Fund level, EU 'C' shares have attracted over €400 million in specialist private funding for EFSE. ▪ ENER/SEFF/MA-JO #35: the EU investment grant was decisive to pool the funds of the EU IFIs and of the largest Moroccan banks to promote private sector investments in sustainable energy. ▪ TRANS/Corridor/MZ #26: IRS was critical for capital investment to proceed including facilitation of equity and shareholder loans for the rail component of the Beira corridor. ▪ WASH/IWSS/MD #11: in Moldova, the NIF grant was, at that time, the sole alternative to have the necessary funding resources for the water sector.
b) Directed money to policy-compliant objectives in 34% of the cases (11/32)	▪ ENER/C.Intercon/NA-ZM #1: for the Caprivi Interconnector project, a thermal plant was planned, but the IRS helped switch this to renewable energy (hydro)
c) Enabled previously earmarked financing to be formally approved and committed to the project in 28% of the cases (9/32)	▪ Lake Turkana project in Kenya: the funding (€600m) was ready but not yet committed to the project due to a €25m mezzanine equity financing gap that has been filled by the ITF
Had a combination of a), b) and/or c) effects (8/32)	▪ Benin Atlantic project: the grant permitted to reach an acceptable concessionality level and to include a rural electrification component. ▪ ENER/O.SolarPlant/MA #15: equity financing could only be financed through a grant, and the promoter could not have had

	access to a grant of this size (€30 million) through other sources. Moreover, the financing was there but not 'moving' due to a pricing problem that has been resolved by both the NIF grant and the contribution of the Government of Morocco.

Sources of information: project documents and interviews with representatives from the IFIs and the EU in headquarters and in the field, as well as with beneficiaries
Quality of evidence: More than satisfactory (notably on the basis of triangulated information originating from various interviews with key stakeholders on the type of role the grant played in terms of leverage and particularly on what the grant actually 'caused'. The team also used all relevant information included in the project documentation).

JC 3.3 Effects of blending on the EU development 'footprint'

Summary JC 3.3 Effects of blending on the EU development 'footprint'

- Blending offered the EU opportunities to increase its potential 'footprint' or 'sphere of policy influence' in global development assistance

Blending offered the EU opportunities to increase its potential 'footprint' or 'sphere of policy influence' in global development assistance. During the period 2007-2014, Official Development Assistance (ODA) grants funded by the European Commission budget amounted €52 billion, placing the European Commission as the second largest ODA provider, behind the IDA of the World Bank (whose ODA is almost 2 times larger than the EC one). The share of the EC budget[42] in total ODA was 5% during the same period. Therefore the EU has had influence on the use of, and objectives achieved by, 5% of global ODA. One can estimate that the EU was also involved with, and got a potential *'seat at the table'* of lead donors, of a further 4% of development finance when multiplying the total blending contracted amounts (€1.7 billion) to the average EU blending leverage ratio of 23. Taking into account both the total EC budget ODA and the EU blending leverage, one can estimate that the EC budget actually contributed to 9% of total ODA during the period 2007-2014 – or to a share as large as IDA. In other words, it means that blending mechanically offered the EU opportunities to broaden – significantly - its potential '*sphere of policy influence'* or *'footprint'* in global development assistance. With EU development assistance rising during the 2014-2020 programming cycle compared to the previous 2007-2013 cycle (€51.4 billion compared to €44,9 billion), the EU's potential sphere of policy influence is likely to increase in the future to reach or exceed 'doubling' of the EU presence in development activities with blending as compared with grant-only financing of development assistance.

Sources of information: OECD data on ODA; EU, 2015 annual report on the European Union's development and external assistance policies and their implementation in 2014, 2015; Inventory of blending projects; project documents and interviews in the field
Quality of evidence: More than satisfactory.

Summary of the Data Collection Process for Evaluation Question 3

Judgement criteria information availability (go to indicator level if needed)	
JC 3.1	4
JC 3.2	4
JC 3.3	4
1= low – 5 = high	
Hypotheses to be tested in the field	**Evidence**
Assembling the financial package has been pragmatic as well as quantitatively driven	This was confirmed in 10 out of 12 cases. This was not confirmed in Armenia and Kenya. In Kenya, the approach used was quantitative: the AFD conducted a study to identify the potential of the market and to determine the appropriate instruments to be used (TA, financing, etc.) to overcome the identified market barriers.

[42] This includes the total amount allocated for the instruments funded by the EU budget and excludes the European Development Fund which remains outside the EU budget.

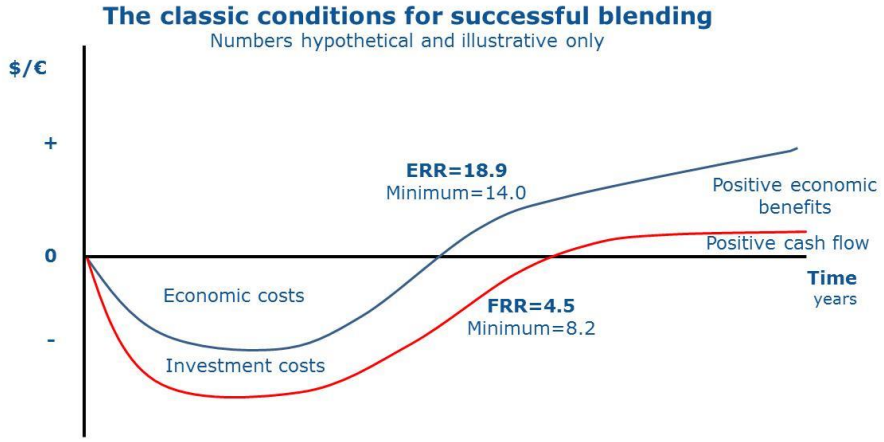
Target leverage levels have been implicit in grant requests	This was generally not confirmed. In some cases, this was partly (Georgia and Moldova) or fully confirmed (Egypt and Namibia). In Georgia, this was confirmed for EFSE and SMEFF but not for the other projects examined. The former required judgements of how much grant was needed to secure additional (loan) funding, but the latter were technical calculations that were not trying to achieve target levels of leverage. The leverage level was high for the non-sample projects: this was 10 in two cases and 34 in another. In Namibia, the logic of determination of the IRS/UPS is explicitly set out in the EIB submission to the EU-Africa ITF Executive Committee but no mention is made of leverage.

3.4 Indicator analysis

JC 3.1 Existence and application of a calculation methodology for proposing the required grant size

I-3.1.1 Existence of a calculation formula, or technique

The 'classic conditions' that favour many (non-IRS) blending projects entail the combination of disappointing financial returns but attractive economic benefits. The disappointing financial returns prevent the 'loan only' scenario but the attractive economic benefits provide a motive for trying to make the project happen. Or to put this in more technical terms, classic conditions imply low FRRs below IFI hurdle rates while the ERR is strongly attractive – as shown in the illustrative diagram below. The key question is the amount of grant required. If the FRR is below debt servicing capacity (DSC) levels, by how much is it below? How much grant is needed to bring it up to the minimum requirement? These are matters of calculation and data.



This chart shows the classic conditions for successful blending: a) where the ERR>FRR, b) the ERR>minimum and c) the FRR<a minimum.

Interviews held in IFIs headquarters with project officers show that the 'classic conditions' (concerning FIRR/EIRR) exist for calculating grant size with precision.

Calculation methodologies of the 'right level' of grant depend also from the blending grant type. The five different blending instruments lend themselves fairly easily to accurately calculating the required size of the grant. This works in various ways:

- Targets are set: for example reaching 35% concessionality on total financing terms, or reducing a tariff by 50 cents or similar. The amount of grant required to reach the target can then be calculated precisely for that instrument – in this case the IRS and the investment grant.
- Unit prices are known, for example the person-month cost of engineering consultancy, and required quantities can be calculated e.g. 24 person-months of input – thereby allowing the TA costs to be estimated accurately.
- Risk appetites can be assessed and target ratios for debt/equity set. For example if private investors or lenders are risk averse, industry norms may require a 1:1 ratio between equity and debt, or 0.8, or whatever the private investor is thought to require. Then the amount of risk capital grant can be calculated for a target mobilization of additional private funds e.g. if we aim to mobilise €10 million in private funding with a debt/equity ratio of 1.0, then we require a risk capital grant of €10 million.

These approaches to calculating the 'right level' of grant are summarized in the table below:

Blending grant type	Basis of calculation
Direct Investment Grant	Quantitative estimate relative to quantified target e.g. reducing a tariff by 5% or 10% etc.
Interest Rate Subsidy Grant	The degree of concessionality of a loan is measured by its 'grant element'. Whenever the interest rate charged for a loan is lower than the discount rate (5%), the present value of the debt is smaller than its face value, with the difference reflecting the (positive) grant element of the loan
Technical Assistance Grant	Bottom-up estimate of what support is needed, how many person-months are needed to carry out the necessary work and thereby a cost estimate can be worked out
Risk Capital	Calculation based on financial ratios e.g. desired debt/equity ratio, or 'comfort %' for private investors (could be high e.g. 30-40%)
Guarantee	Fixed by amount and % to be guaranteed, or by actuarial loss rates and financial ratios for collective guarantees

Source: EU Devco Blending Training Material

I-3.1.2 Application of the calculation formula

Even if calculating the right level of grant is technically and arithmetically possible, the question arises whether this has actually been done? Or whether perhaps, for whatever reason, grant amounts were arrived at by some other method?

The evidence collected during the evaluation shows that specific calculation formulas have most of the time not been applied to determine the grant amounts during the period 2007-2014. Still, the method for arriving at a grant size has become more transparent with the evolution of the blending guidance framework in 2014.

In early blending projects the grant amounts were partly fixed by 'rationing' (programming) the available funds – and in that sense they were partly 'supply driven'.

- Firstly, interviews with IFI loan officials at headquarters indicate that early grant amounts were driven more by 'what the Facility made available' than by detailed calculations of what the

project needed. Interview quotes include statements like 'we asked for more but were told that was all that the Facility could allocate to this project' and 'the grant amount was a judgment based on what would appear as serious to the Government'.

- Secondly, the review of the grant amounts on the basis of the inventory of blending projects shows that the amounts have been very 'rounded'. The table below summarises the EU Facility grant amounts for the 203 blending projects decided during the period 2007-2014. It suggests that there is a strong element of supply-side programming in determining the EU grant size as there are numerous clusters of the same rounded grant amounts. However, rounding project costs is standard practice in project financing. Finance for development projects is generally based on estimates. By definition it always concerns future costs and there are a range of reasons why several of these can only be estimated. For example the costs associated with a new technology like solar panels are not always known accurately, nor can the impact of economies of scale, inflation, better procurement methods etc. always be estimated accurately. It is therefore not unusual for a project finance package to contain estimates and usually significant contingencies.
- Thirdly, until August 2014, the (previous) blending grant application form did not require the IFI to demonstrate the calculations underpinning the grant request. Although there was a section 'V: Financing Plan', for the 32 projects examined in depth this generally contained headline numbers of the consolidated financing plan only, and no calculations of grant size were shown. ERR and FRR information is generally not available in the project fiches for the 32 projects the team examined in depth during the country visits. ERR calculations were made at identification stage for two EIB-led projects (TRANS/Corridor/MZ #26 and Benin-Togo Power Rehabilitation project LCO component).
- Fourthly, there are some known cases of divergence between the grant needed and the grant provided. Interviews indicate a few cases where the calculation of the grant required exceeded the grant provided (e.g. Noor I - ENER/O.SolarPlant/MA #15), the latter driven by 'this is all that is available'. In such cases typically the EU grant was complemented by other grants.

Table 24 - EU grants awarded per project for the overall sample of projects, in descending order of magnitude (€)

50 750 000,00	13 700 000,00	7 220 000,00	4 992 000,00	2 400 000,00
40 750 000,00	13 350 000,00	7 200 000,00	4 800 000,00	2 350 000,00
40 500 000,00	13 000 000,00	7 200 000,00	4 700 000,00	2 340 000,00
39 700 000,00	12 440 000,00	7 200 000,00	4 700 000,00	2 300 000,00
34 100 000,00	12 300 000,00	7 000 000,00	4 700 000,00	2 268 400,00
30 000 000,00	12 250 000,00	7 000 000,00	4 650 000,00	2 200 000,00
30 000 000,00	12 240 000,00	6 288 000,00	4 200 000,00	2 140 000,00
28 560 000,00	12 240 000,00	6 240 000,00	4 200 000,00	2 140 000,00
27 250 000,00	11 240 000,00	6 200 000,00	4 160 000,00	2 140 000,00
25 000 000,00	11 000 000,00	6 200 000,00	4 160 000,00	2 000 000,00
24 480 000,00	10 675 000,00	6 000 000,00	4 160 000,00	1 926 000,00
23 500 000,00	10 280 000,00	6 000 000,00	4 160 000,00	1 750 000,00
22 000 000,00	10 240 000,00	5 928 000,00	4 160 000,00	1 750 000,00
20 535 000,00	10 220 000,00	5 928 000,00	4 100 000,00	1 712 000,00
20 400 000,00	10 200 000,00	5 700 000,00	4 000 000,00	1 700 000,00
20 000 000,00	10 200 000,00	5 550 000,00	4 000 000,00	1 700 000,00
20 000 000,00	10 200 000,00	5 500 000,00	3 952 000,00	1 700 000,00
20 000 000,00	10 032 000,00	5 500 000,00	3 915 984,34	1 626 790,62
19 375 000,00	10 000 000,00	5 300 000,00	3 750 000,00	1 605 000,00
18 200 000,00	10 000 000,00	5 240 000,00	3 739 896,39	1 605 000,00
17 828 379,80	9 335 000,00	5 200 000,00	3 700 000,00	1 600 000,00
17 700 000,00	9 320 000,00	5 200 000,00	3 402 100,00	1 350 000,00
16 830 000,00	9 220 000,00	5 200 000,00	3 250 000,00	1 306 623,80
16 600 000,00	8 600 000,00	5 200 000,00	3 200 000,00	1 200 000,00
16 530 000,00	8 320 000,00	5 200 000,00	3 150 000,00	1 140 528,00
16 320 000,00	8 300 000,00	5 200 000,00	3 150 000,00	1 091 400,00
15 416 000,00	8 300 000,00	5 200 000,00	3 150 000,00	1 000 000,00
15 400 000,00	8 260 000,00	5 200 000,00	3 100 000,00	1 000 000,00
15 392 600,00	8 248 000,00	5 200 000,00	3 030 000,00	999 806,96
15 390 000,00	8 220 000,00	5 200 000,00	3 000 000,00	900 000,00
15 340 000,00	8 220 000,00	5 200 000,00	3 000 000,00	800 000,00
15 300 000,00	8 200 000,00	5 200 000,00	3 000 000,00	786 137,32
15 300 000,00	8 200 000,00	5 200 000,00	3 000 000,00	761 258,00
15 300 000,00	8 003 100,00	5 200 000,00	3 000 000,00	600 000,00
15 300 000,00	8 000 000,00	5 200 000,00	3 000 000,00	500 000,00
15 300 000,00	8 000 000,00	5 199 700,00	2 675 000,00	494 900,60
15 000 000,00	7 945 000,00	5 100 000,00	2 650 000,00	400 000,00
15 000 000,00	7 842 000,00	5 100 000,00	2 600 000,00	337 414,51
14 300 000,00	7 530 250,00	5 000 000,00	2 500 000,00	280 611,64
13 785 000,00	7 500 000,00	5 000 000,00	2 407 500,00	97 315,00
13 758 349,50	7 280 000,00	5 000 000,00		

Source: ADE calculations on the basis of the Blending data inventory

The evolution of the blending guidance framework towards the end of the evaluation should lead to greater 'bottom up' precision in calculating the grant size based directly on project needs. The introduction of a new application form mid-2014 and general maturing of the screening process indicate greater emphasis on bottom up calculations of grant size based on quantified project parameters reflecting the 'grant needed'. The new application form includes 2 of 36 questions (items 27 and 34) requiring detail on grant calculation and grant justification. The item 'Key Requirements' (decision criteria) also requires a clear explanation of the use of the funds requested. These are important steps in making the calculation of the grant amount more technical and transparent. But grant amounts were still 'rounded' recently (2013-2014), which indicates that calculations were still not based on bottom-up technical calculations (see table below).

Table 25 - EU grants awarded per project for projects of the sample approved in 2013 & 2014, in descending order of magnitude (€)

40 750 000,00	12 440 000,00	5 928 000,00	4 000 000,00
34 100 000,00	12 300 000,00	5 500 000,00	3 952 000,00
25 000 000,00	12 240 000,00	5 500 000,00	3 402 100,00
24 480 000,00	11 000 000,00	5 300 000,00	3 250 000,00
23 500 000,00	10 675 000,00	5 200 000,00	3 150 000,00
20 535 000,00	10 220 000,00	5 200 000,00	3 150 000,00
20 000 000,00	10 000 000,00	5 200 000,00	3 000 000,00
20 000 000,00	10 000 000,00	5 200 000,00	2 650 000,00
20 000 000,00	9 320 000,00	5 200 000,00	2 407 500,00
19 375 000,00	8 300 000,00	5 200 000,00	2 300 000,00
16 830 000,00	8 248 000,00	5 200 000,00	2 268 400,00
15 416 000,00	8 220 000,00	5 200 000,00	2 140 000,00
15 392 600,00	8 200 000,00	5 200 000,00	1 926 000,00
15 390 000,00	8 000 000,00	5 199 700,00	1 712 000,00
15 300 000,00	7 945 000,00	5 000 000,00	1 700 000,00
15 300 000,00	7 530 250,00	5 000 000,00	1 700 000,00
15 300 000,00	7 500 000,00	4 992 000,00	1 605 000,00
15 000 000,00	6 288 000,00	4 800 000,00	1 605 000,00
13 785 000,00	6 240 000,00	4 700 000,00	1 091 400,00
13 758 349,50	6 000 000,00	4 650 000,00	600 000,00
13 350 000,00	6 000 000,00	4 160 000,00	500 000,00
13 000 000,00	5 928 000,00	4 160 000,00	97 315,00

Source: ADE calculations on the basis of the Blending data inventory,

The findings from the field visits confirm that the level of grant was often (8 out of 12 countries) not derived from specific calculations of the optimal amount of grant. Detailed calculations were made to determine the amounts of grants in Kenya and Congo - and partly in Georgia and Egypt . Assembling the financial package has rather been a mix of pragmatic and quantitative considerations (10 out of 12 countries), especially of: i) calculation to meet a shortfall in financial viability; ii) estimation of the needs in terms of TA together with the beneficiaries; iii) calculation to provide finance on equal or better terms than other IFIs, iv) negotiation with the government, including to meet the IMF concessionality requirement; and v) negotiation with the EU according to the availability of funds within the facilities. The below table presents the detailed findings from each country visited.

Table 26 - Field visits findings: how was the amount of grant determined?

Country	Have specific calculations been applied to determine the amount of grant?
Armenia	Many projects have levels of grants above 30%. The arguments advanced for this level of grant (beyond meeting IMF-level conditions) are not clearly stated and very few people are able to provide an explanation.
Colombia	The amount of the grants was not derived from a specific calculation/formula. The amounts provided have been derived from an estimation of the needs in terms of TA together with the beneficiaries.
Congo	The proportion of the grant has been based on detailed calculations. The IRS amount corresponds to the grant needed to bring the interest rate for the borrower to 4.6%, a level that came out from the negotiation between the IFI and the beneficiary. The TA amount requested was based on previous studies conducted by the IFI. The compliance with IMF requirements has also been highlighted in the application form, but not as a determinant of the EU grant size.
Egypt	Grants proportions were determined pragmatically with a mix of considerations. Although it is not explicitly documented there have been a range of calculations and considerations made to justify the grants which ultimately were determined through negotiation and the available supply of grant funding. The level of grants for the

Country	Have specific calculations been applied to determine the amount of grant?
	water sector are greater than for the energy sector reflecting the greater institutional challenges in the water sector.
Georgia	The sizes of the grants were calculated in two different ways. For the two financial projects, BANK/EFSE/MC #36 and IND/SME Facility/REG #12, the grant sizes were determined by 'the size of the programme' as well as by assumed risk cushions required in order to introduce private investors, but not by exact calculations. For the other non-sample infrastructure projects, technical parameters allowed calculation of grant amounts e.g. for example the TA components for the Enguri dam hydro-power project and the Power Transmission project were the result of detailed calculations of tasks, duration and unit costs for the engineering and project management skills that were needed.
Morocco	The amount of the grants was not derived from a specific calculation/formula. • WASH/PNA-ONEP/MA #30: the NIF grant (€10m) was sized accordingly to TA needs. FRR/ERR considerations have not guided the size of the grant. • ENER/O.SolarPlant/MA #15: The amount of the grant (€30m) was arrived at in two main ways: i) the quantitative approach based on estimates of the investment grant needed to reduce the unit solar electricity costs to an acceptable level; and ii) the qualitative approach which emerges from programming and availability of funds within the NIF. • ENER/SEFF/MA-JO #35: the NIF amount (€16.5m) depended on the incentive payment proposed to the banks (up to 2% of the loan amount) and of the investment incentive for the end-borrowers (5% to 15% of the sub-loan amount).
Moldova	The level of grant was not derived from calculations of the optimal amount of grant. The financial package has been determined both through feasibility studies (where the reimbursement capacity of the beneficiaries have been analysed) and the IMF concessionality requirement.
Kenya	Quantitative aspects led to the calculations of the grant amounts. For ENER/Env.Credit lines/REG #43-44, there were feasibility calculations that underpinned the TA amounts for both phases. For the WASH/LVWATSAN/UG #27-28 projects, the €14 million interest subsidy was calculated against the AFD loan of €75 million and the DSF (IMF) requirement of 25% concessionality under the life of that loan. The €8 million TA was calculated based on the expected cost of two major studies.
Mozambique	There is no evidence of application of specific guidelines or criteria beyond the concessionality limits and 50% limit on EIB funding
Namibia	Grant proportions were determined by various considerations although no reference appears to have been made to specified concessionality levels of 35%. Only the ENER/C.Intercon/NA-ZM #1 project demonstrates a mixture of loans and grants[43] and the considerations for qualification of the maximum level of subsidy are set out in detail in the project application form. For this project, there was no prescriptive following of guidelines – in fact it was noted that the project could *"arguably merit a subsidy in excess of the maximum currently available…."*
West Africa	No precise calculation or formula has been found for determining the grant amount of the Benin Atlantic Project (20M€ out of 58M€) - but the grant roughly covers the amount of the rural component – and of the Benin-Togo Power Rehabilitation project LCO Component (interest rate subsidy of 12.25M€ or 36% of 73.2M€ total project cost). For the WAPP Master Plan (ENER/WAPP/REG #2) and ERERA (ENER/ERERA/REG #3), grant amounts have been based on estimated costs for revising the WAPP master plan, and for establishing this regional regulatory authority ERERA.

Source: ADE on the basis of the Country Notes presented in Volume 2

[43] The studies for the Walvis Bay Container Terminal, ITMP and Biomass and Solar Power Feasibility were grants whilst LOHEPS is at preparation stage (and is understood not to be going ahead at this stage

JC 3.2 Extent to which blending generated financial leverage

I-3.2.1 Levels of financial leverage for the sample of projects & I-3.2.3 Levels of financial leverage per instrument

Financial leverage is the 'extent to which public and private financial resources can be mobilised for a specific project' (…) 'It reflects the additional amount of finance a grant can help to mobilise as a financial input into an investment project that will then go on to deliver beneficial results in line with policy objectives'. (Source: EU guidelines on blending operations, 2015).

As a financial concept, leverage can be measured as an *arithmetic ratio*. The most widely used ratio compares the value of the investment (total project cost) to the total amount of the EU blending facility grant. This is the investment leverage ratio. Other ratios are the total financial institution leverage ratio and the private financing leverage ratio. (Source: EU guidelines on blending operations, 2015).

The 2015 blending guidelines further specify that the legal basis for blending requires a minimum financial leverage ratio of 2. They also recognize that 'the leverage ratio is likely to be very different depending on the nature of the grant intervention (e.g. risk capital operations compared with interest rate subsidy), the sector, or the characteristics of the project being supported'.

According to the 2015 blending guidelines, 'past blending experience has shown that the estimated financial leverage ratio can vary widely: from 2 to 40 times the grant component, depending on the sector, region, country and project specifics'.

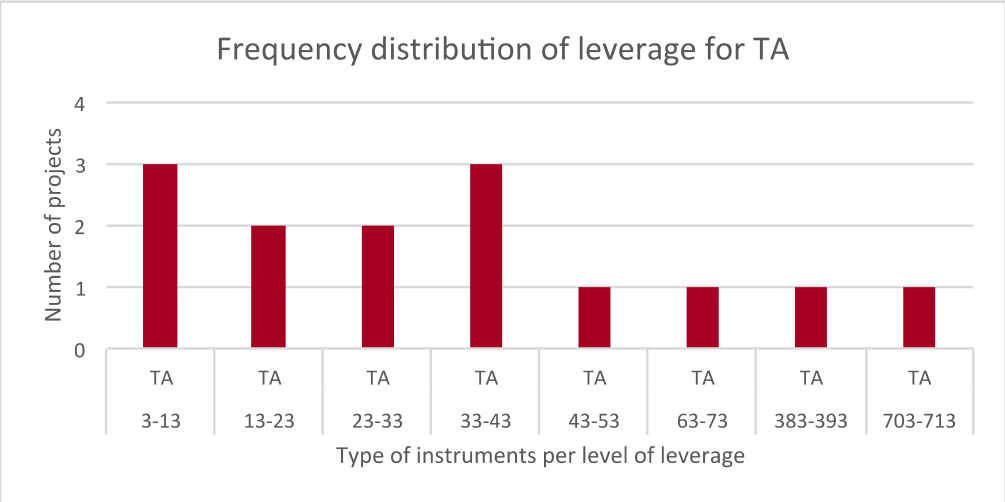
For the full portfolio of blending projects, with total projects costs amounting €39,46 billion and the total EU contribution amounting €1,71 billion, the investment leverage ratio is 23 (see also Annex on Inventory of projects). It is an *arithmetic ratio* – and should be understood as such, that is no causality is implied by this ratio. The team calculated the investment leverage ratio for the different types of grants under the sample of 40 projects (see table below). The averages show that they are bunched closely together and not remarkably different for three of the grant types – investment grant, IRS and risk capital – all displaying a leverage ratio of around 15. Not surprisingly TA leverage is much higher (102), but two TA outliers distort the average. Without these outliers, the TA leverage equals on average 28. One should observe that this figure by far exceeds typical leverage ratios in project finance of 5-7. This is explained by i) the role that blending grants play to resolve the 'specific challenges' discussed under EQ1; ii) the fact that blending is prominent in high cost capital intensive infrastructure projects – so almost by definition the leverage ratio is high; and iii) the fact that the EU grant is not the only source of grants (see discussion below under I-3.2.2).

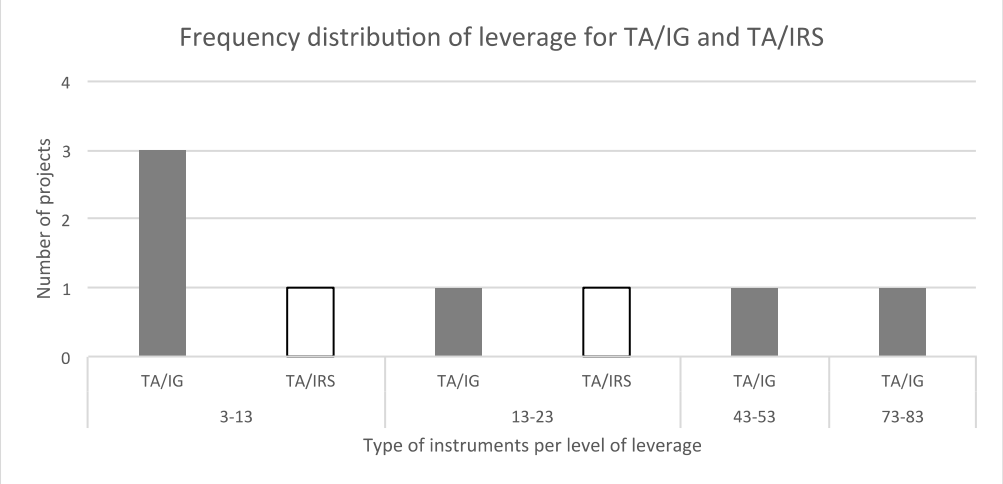
Table 27 - Average leverage ratio per type of grant for the sample of 40 projects

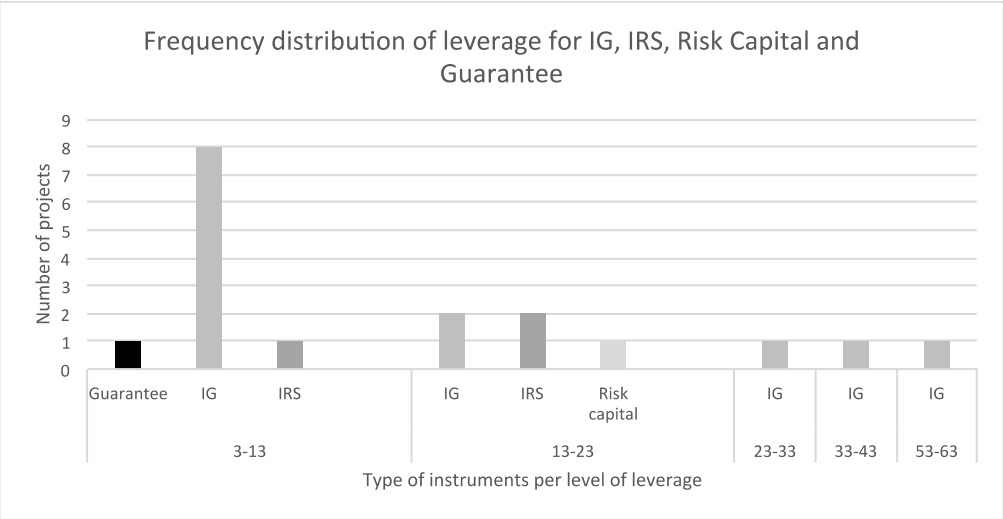
Grant instrument	Average leverage ratio	Number of projects	Example of projects
Guarantee	10,80	1	EBRD-13 SME Facility - EBRD / KfW window
IG	16,03	13	MD-02 Moldova Road Rehabilitation project
IRS	14,84	3	Mauritania Submarine Cable
Risk capital	14,73	1	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)
TA *TA without outliers*	102,81 *28,00*	14	EBRD-03 Ukrenergo Corporate Sustainable Development
TA/IG	26,33	6	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I
TA/IRS	14,48	2	Port de Pointe Noire (PAPN)

Source: ADE calculations on the basis of Blending data inventory

The frequency distribution of leverage per type of grant is presented in the charts below. They show the outliers that distort the TA average and for the rest confirm that most grants are relatively bunched without significant outliers, suggesting a stable leverage pattern.

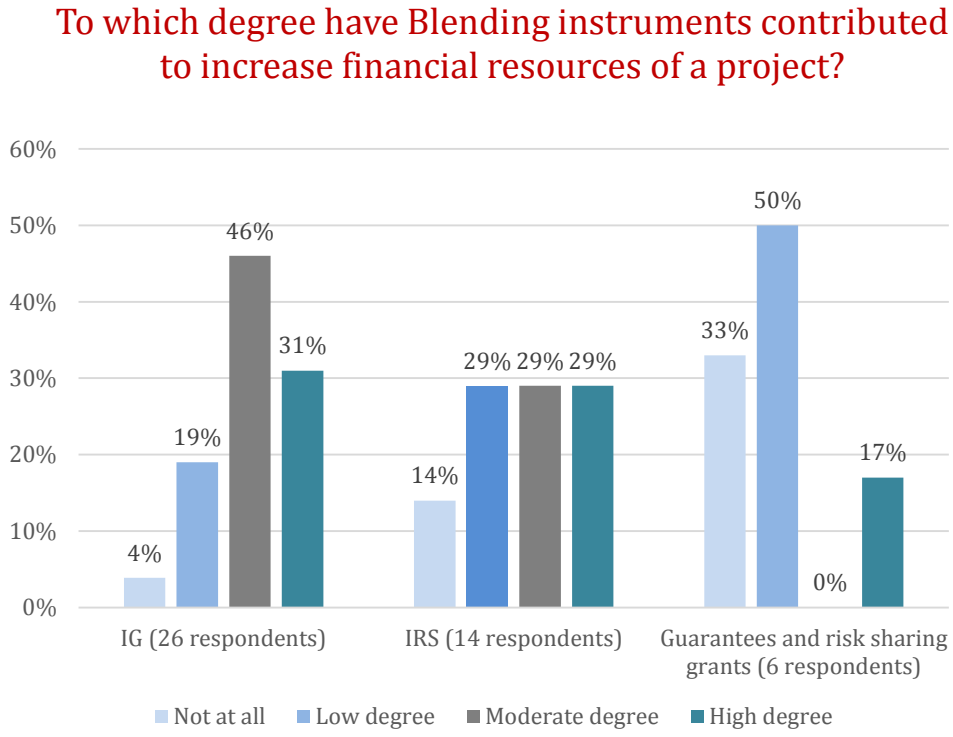






Source: ADE calculations on the basis of Blending data inventory

These findings are confirmed by the results of the survey, which show that investment grants have been more successful than other instruments (IRS and guarantees) to mobilise additional funding for project finance (see below figure). 77% of respondents considered that IG contributed to a moderate or high degree to increase the financial resources available for a project, whereas this rate goes down to 59% for IRS and to only 17% for guarantees. Most respondents considered guarantees as not mobilizing funding to finance a project or only to a low degree.



Source: ADE calculations on the basis of the results of the survey to EUDs

I-3.2.2 Role of the EU grant in leverage

Quantification of the number of sample projects where the EU grant is part of a broader package of other grants & Quantification of the EU grant leverage and total grant leverage for those multi-grant projects

The EU Facility has not always been the sole source of grant funding for blending projects. Other co-donors – with their own drivers of grant size – also provided additional grants. Multi-donor financial packages concern more than half of the blending projects the team visited during the field visits (or 17 out of 32 blending projects).

The below table provides the full list of these 17 projects as well as the investment leverage ratios attached i) to the EU grant; ii) to the other donors grants; and iii) to both the EU and other donors grants. We see from the below table that the average EU leverage ratio for the 17 multi-grant blending projects is 18, while the average other donors leverage ratio – without outliers – is 37. The full grant leverage ratio (comprising both EU and other donors grants) equals on average 8 for these 17 projects. In 12 out of the 17 cases, the EU grant was superior in absolute terms to the grants awarded by other donors, hereby mechanically making the average EU leverage ratio superior to the average full investment leverage ratio and inferior to the one of the other donors.

Table 28 - Leverage ratios for the 17 multi-grant blending projects visited during the field missions

Project	EU Facility	Project cost (M€)	Amount of EU Grant (M€)	Other donors	Amount of Other Donors grant (M€)	Total grant (M€)	EU investment leverage ratio	Other donors investment leverage ratio	Full investment leverage ratio
ENER/PowerTrans/EG	NIF	778,32	16,32	Other grant	232	248,32	47,69	3,35	3,13
WASH/KotaykSW/AM	NIF	42	3,7	TC donors	1,51	5,21	11,35	27,81	8,06
BANK/EFSE/MC	NIF	75,1	5,1	KfW, OeEB, Armenia, Azerbaijan	60	65,1	14,73	1,25	1,15
ENER/Env.Credit lines/REG	ITF	80	4,1	Other grant	0,7	4,8	19,51	114,29	16,67
ENER/ERERA/REG	ITF	8,4	1,7	Other grant	3	4,7	4,94	2,80	1,79
ENER/O.SolarPlant/MA	NIF	837	30	Other grant	27	57	27,90	31,00	14,68
ENER/SEFF/MA-JO	NIF	158,53	16,8	ERBD multi donor	1,2	18	9,44	132,11	8,81
TRANS/Corridor/MZ	ITF	188	17,8	Other grant	13,1	30,9	10,56	14,35	6,08
TRANS/MetroRehab/AM	NIF	21,8	5,2	ERBD bilateral donors (TA)	1,63	6,83	4,19	13,37	3,19
TRANS/PAPN/CG	ITF	166,2	8,6	Other grant	0,5	9,1	19,33	332,40	18,26
TRANS/PublicTrans/MD	NIF	18,7	3,2	ERBD bilateral donors	1,8	5	5,84	10,39	3,74
WASH/IWRM/CO	LAIF	147,15	4,65	Agence de l'eau Adour Garonne	0,2	4,85	31,65	735,75	30,34
WASH/IWSP/EG	NIF	300,3	5,2	Other grant	111,2	116,4	57,75	2,70	2,58
WASH/IWSS/MD	NIF	62,15	3,15	Other grant	8	11,15	19,73	7,77	5,57
WASH/LVWATSAN/UG	ITF	212	22	KfW (grant urban poor)	10	32	9,64	21,20	6,63
WASH/SMWP/AM	NIF	28,642	7,842	International donors (TC grant)	0,2	8,042	3,65	143,21	3,56
Georgia Batumi Water	NIF	47,2	4,7	ADB	1,8	6,5	10,04	26,22	7,26
Total		**3171,5**	**160,1**		**473,8**	**633,9**			
Average							**18,11**	**95,29**	**8,32**
Average without outliers								***36,79***	
Total number of projects	17								

Source: ADE calculations on the basis of the inventory of blending projects and of the project fiches for the 32 projects visited in the field

Assessment of the extent of causality – whether the EU grant a) caused/mobilised additional funding b) enabled previously earmarked financing to be formally approved and committed to the project and/or c) reallocated project investment to reach other policy objectives

The team tried to unravel for the 32 projects visited in the field - on the basis of triangulated information originating from documents and interviews with IFIs, EU headquarters, EUDs, and beneficiaries - what the EU grant actually did: a) has it mobilised additional funding; b) has it enabled previously earmarked financing to be formally approved and committed to the project; and/or c) has it reallocated project investment to reach other policy objectives? This review shows that:

- In half of the cases reviewed (16 out of 32), projects have been reckoned to actually mobilise new money – implying that the EU grant ***caused*** other money to become available for those projects. In those cases, the full panel of blending instruments was used, but especially investment grants, technical assistance and interest rate subsidies. An example of crowding-in private financing is provided by the EFSE project (BANK/EFSE/MC #36): at Fund level, EU 'C' shares have attracted over €400 million in specialist private funding for EFSE. For the MorSEFF in Morocco (ENER/SEFF/MA-JO #35), the EU investment grant was decisive to pool the funds of the EU IFIs and of the largest Moroccan banks to promote private sector investments in sustainable energy. For the Beira corridor project (TRANS/Corridor/MZ #26), IRS was critical for capital investment to proceed including facilitation of equity and shareholder loans for the rail component. In Moldova, the NIF grant was, at that time, the sole alternative to have the necessary funding resources for the water sector (WASH/IWSS/MD #11). Conversely, the catalytic effect of blending, in terms of attracting additional financial resources from IFIs to finance the project, was limited for the Port of Pointe Noire project (TRANS/PAPN/CG #41-42). Blending has rather contributed to improve the financial return of the project and to make the financial conditions of the lead IFI more competitive than attracting additional financial resources.
- In 34% of the cases reviewed (11 out of 32), the grant directed money to policy-compliant objectives. In 6 of these 11 cases, investment grants were used. The Caprivi Interconnector project (ENER/C.Intercon/NA-ZM #1) is an example where an IRS was used: a thermal plant was planned, but the IRS helped switch this to renewable energy (hydro).
- In 28% of the cases (9 out of 32), the grant enabled previously earmarked financing to be formally approved and committed to the project. Two interesting examples are Noor I (ENER/O.SolarPlant/MA #15) and the Lake Turkana wind projects. For the Lake Turkana project, the funding (€600m) was ready but not yet committed to the project due to a €25m mezzanine equity financing gap that has been filled by ITF.
- The grants contributed to several of the a), b) and c) effects in 8 out of 32 cases. For instance, for the Benin Atlantic project, the grant permitted to reach an acceptable concessionality level and to include a rural component. Many stakeholders considered that without the EU contribution, the entire project would most probably not have taken place, and in any case not its rural electrification component. For the wind farm in Egypt, the demonstration of the technical and financial feasibility at scale helped to trigger later private sector involvement in financing renewable energy and the project by its nature has significant climate mitigation benefits. For the solar plant in Morocco ((ENER/O.SolarPlant/MA #15), equity financing could only be financed through a grant, and MASEN was of the opinion that it could not have had access to a grant of this size (€30 million) through other sources. Moreover, the financing was there but not 'moving' due to a pricing problem that has been resolved by both the NIF grant and the Government of Morocco contribution.
- Four projects are reckoned not to have had any of the a), b), and/or c) effects. This particularly concerns cases where the grant was used to finance i) feasibility studies and master plans (ENER/WAPP/REG #2; TRANS/PortWalvis/NA #4; TRANS/MasterPlan/NA-REG #5)

that have not (yet) been followed-up with preparation of individual project interventions; or ii) TA in response to a demand emerging within the framework of a credit line already awarded to the beneficiary (MULTI/SustDev/CO #19).

JC 3.3 Effects of blending on the EU development assistance 'footprint'

I-3.3.1 Trends of EU development assistance *without* blending financial leverage relative to key ODA donors & I-3.3.2 Trends of EU development assistance *with* blending financial leverage relative to key ODA donors

Quantification of the Euro volume of annual aid programmes of key ODA donors and comparison to EU aid programme with and without blending leverage for the period 2007-2014, and forecasts for the next programming cycle 2014-2020

During the period 2007-2014, the European Commission was the second largest ODA provider (with 52 billion of ODA grants), behind the IDA of the World Bank (whose ODA was almost 2 times larger than the EU one). The share of the EU budget[44] in total Official Development Assistance (ODA) was 5% during the same period. Therefore the EU has had influence on the use of, and objectives achieved by, 5% of global ODA. One can estimate that the EU was also involved with, and got a 'seat at the table', of a further 4% of development finance when multiplying the total blending contracted amounts (€1.7 billion) to the average EU blending leverage ratio of 23 during the period 2007-2014. Taking into account both the total EC budget ODA and the EU blending leverage, one can estimate that the EC actually contributed to 9% of total ODA during the period 2007-2014 – or to a share as large as IDA (see below table). In other words, it means that blending mechanically offered (through the arithmetic ratio) the EU opportunities to broaden – actually almost double – its potential '*sphere of policy influence'* or *'footprint'* in global development assistance. With EU development assistance rising during the 2014-2020 programming cycle compared to the previous 2007-2013 cycle, the EU's potential sphere of policy influence is likely to increase in the future to reach or exceed 'doubling' of the EU presence in development activities with blending as compared with grant-only financing of development assistance. Over the period 2014-2020, the total amount allocated for the instruments funded by the EU budget increased to €51.4 billion compared to €44,9 billion during the period 2007-2013. This amount excludes the EDF, which is funded outside of the EU budget. (Sources: EU, 2015 annual report on the European Union's development and external assistance policies and their implementation in 2014, 2015 and OECD data).

[44] This includes the total amount allocated for the instruments funded by the EU budget and excludes the European Development Fund which remains outside the EU budget.

Table 29 - ODA trends for major donors and estimates of the EC blending leverage in total ODA

	2007	2008	2009	2010	2011	2012	2013	2014	Total (2007-2014)
ODA (in Euro millions, otherwise indicated)									
All donors (total ODA)	€99 883	€102 233	€112 274	€132 632	€121 052	€143 266	€148 021	€133 691	€993 053
DAC countries	€69 972	€74 755	€75 833	€92 160	€79 574	€86 840	€87 135	€84 221	€650 489
IDA	€9 566	€7 334	€10 320	€11 798	€11 600	€13 375	€12 198	€15 190	€91 379
IDA in % of total ODA	*9,6%*	*7,2%*	*9,2%*	*8,9%*	*9,6%*	*9,3%*	*8,2%*	*11,4%*	*9,2%*
EC budget	€5 752	€6 613	€7 028	€6 470	€6 552	€6 106	€6 395	€7 137	€52 053
EC budget in % of total ODA	*5,8%*	*6,5%*	*6,3%*	*4,9%*	*5,4%*	*4,3%*	*4,3%*	*5,3%*	*5,2%*
Estimates									
Blending leverage (€m) (data from Inventory)									€39 440
Blending leverage in % of total ODA									*4,0%*
EC budget + Blending leverage (€m)									€91 493
EC budget + Blending leverage in % of total ODA									*9,2%*

Source: ADE calculations on the basis of the OECD database and of the inventory of blending projects

4 EQ 4: Instruments

To what extent has the appropriate blending instrument or mix of instruments been selected?

Judgement Criteria	Indicators
4.1 TA was used in situations where there was a clearly identified need for it	1. Rationale and justification provided 2. TA was partner owned, demand led and results orientated 3. Benefits are evident in terms of quality
4.2 Interest rate subsidies and investment grants were used in situations where there was a clearly identified need for them.	1. Rationale and justification provided 2. Benefits are evident in terms of quality 3. Benefits are evident in terms of addressing externalities
4.3 Guarantees and risk capital were used in situations where the there was a clearly identified need for them	1. Rationale and justification provided 2. Benefits are evident in terms of addressing market failures

4.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

Table: Methodological approach
1 Examine the project documents of the sample projects and determine if there is a case put forward for providing a grant element to the loan i.e. blending is appropriate
2 Assuming that it is found appropriate to blend then determine what type of instrument has been used ▪ Examine if a rational and justification has been presented in the documentation ▪ Determine the nature of the externalities and/or market failures which are being addressed ▪ Where relevant cross check these findings with the delegation, IFI and beneficiaries ▪ In the light of the issues being addressed by the grant element, make a judgement on the quality of the justification put forward for selecting the particular instrument used – noting if alternative instruments have been considered
3 Determine from the project document who the beneficiaries are and what benefits they are expected to derive from the grant element ▪ Examine the documentary evidence that if it is likely that these benefits will arise and will be obtained by the intended target group ▪ Where relevant cross check these findings with the delegation, IFI and beneficiaries
4 From evidence during implementation, and where possible after completion, determine the evidence that the intended benefits of the particular blending instrument have occurred in practice ▪ Examine the documentary evidence of benefits having occurred and which beneficiaries have obtained these benefits ▪ Check for alternative explanations (counterfactuals) for how these benefits could have arises (or why they might be missing). ▪ Where relevant cross check these findings with the delegation, IFI and beneficiaries
▪ It is expected that during the desk phase, activities will include collection and analysis of documents, consideration of policy and strategies regarding blending and interviews. ▪ Collection of information should be enhanced by answers to a proposed questionnaire to be circulated to selected EUDs. ▪ Recommendations are likely to focus on measures to improve the selection of instruments, on which instruments are appropriate in different circumstances. Users are likely to include IFIs, blending facility staff and future clients and project owners.

Rationale for the EQ:

This EQ examines whether the most relevant instrument or combination of instruments for delivering the grant has been applied. It examines the quality of the case made for selection of a particular instrument or mix of instruments and examines whether the instrument(s) selected were well suited to deliver the value added that is expected from a blending operation and the evidence that expected benefits were obtained.

This EQ is closely linked to EQ3 on concessionality which looks at the case for providing a grant and if so how much. The EQ is also closely linked to the evaluation questions on the outputs and added value of blending (EQ6 on project quality which mainly relates to technical assistance; and EQ 7 on unlocking financial markets which mainly relates to risk sharing). In each of the "added value" related EQs (EQ 5 to 7) the contribution of the instrument or instruments used will be examined. The EQ is also linked to EQ9 on results in so far as it examines the extent to which the benefits expected from application of the instrument were achieved. A section in the final report will need to bring the different parts of this analysis together in order to reflect on the effectiveness of each instrument. A strength, weakness, opportunities and threats analysis will be carried out on each instrument.

The EQ thus relates to effectiveness (whether the right instrument has been chosen given the justification for grant and added value (arising from the use of particular instruments or a combination of instruments).

Detailed sample of projects

A wide range of projects across the sample of 43 were examined. The 18 projects below were examined in greater detail as they were found to be highly relevant for evaluation question. There is pre-dominance of NIF and ITF projects because these were the most mature. The projects marked * were ones which were visited during field missions.

#	Name	Notes	IFI	Facility
14*	WASH/IWSP/EG - EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	TA	KFW	NIF
31*	ENER/PowerTrans/EG - EG-03 Egyptian Power Transmission	TA / grant	EIB	NIF
32*	ENER/Wind Farm/EG - EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	Grant	KFW	NIF
9*	TRANS/MetroRehab/AM - AM-01 Yerevan Metro Rehabilitation	Grant	EBRD	NIF
13*	WASH/KotaykSW/AM -Armenia Kotayk Solid Waste Project	Grant	EBRD	NIF
33*	WASH/SMWP/AM - AM 02 - Armenian Small Municipalities Water Project	Grant + TA	EBRD	NIF
40	ENER/Geothermal/DM - "Support to the development of Geothermal Energy"	TA	AFD	CIF
12*	IND/SME Facility/REG - EBRD -13 SME Facility - EBRD / KfW window	TA + Loan Guarantee / risk cushion	EBRD /KFW	NIF
36*	BANK/EFSE/MC - KfW-03 European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	Risk capital	KFW	NIF
26*	TRANS/Corridor/MZ - Beira Corridor	IRS	EIB	ITF
43*-44*	11 ENER/Env.Credit lines/REG– 2013 - ENER/Env.Credit lines/REG - 2010 Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	TA	AFD	ITF
41*-42*	TRANS/PAPN/CG - Port de Pointe Noire (PAPN)	TA and IRS	AFD	ITF
6	Seychelles submarine cable COM/SubCable/SC-TZ	Loan guarantee	EIB	ITF
7	Maurtania submarine cable COM/SubCcable/MR	IRS	EIB	ITF
20*	WASH/WRM/CO	TA and IRS	AFD	LAIF
19*	MULTI/SustDev/CO	TA and IRS	AFD	LAIF

4.2 Evaluation question

Summary

- Overall blending instruments were used appropriately.
- The TA instrument was, for most projects, used in situations where there was a clearly identified need and significant results and benefits were achieved by the use of this instrument that would not have been achieved without it
- The TA instrument was principally used to secure professional project preparation and management and only in a few cases deliberately designed for longer term capacity development
- The interest rate subsidy and investment grants are used where there is a need for them often in combination with TA which provides additional benefits
- Relatively large investment grants and interest rate subsidies used for piloting new approaches provided a technical demonstration effect but potentially reduced the replicability and scaling up potential.
- Loan guarantees and risk capital are used where there is a need for them often in combination with TA which provides additional benefits.

The different instruments or type of financing provided in blending projects are designed to match varying needs depending on the nature of the project, the challenge that blending is responding to and the type of added value that is expected from the grant component. The EU grant contribution can be in the form of one or a mix of the following instruments:

- Technical assistance instruments,
- Capital subsidy instruments (either as investment grants or interest rate subsidies) and,
- Risk sharing instruments (either as guarantees or risk capital).

Overall blending instruments were used appropriately. The selection of the instrument was justified but often not well documented. Only rarely is the use of the instrument explicitly argued for in the project justification and rationale. Later projects, projects in the financial sector and projects under EBRD where the transition impact is explicitly identified tend to better justify the use of a particular instrument. No cases were found across the sample of 43 projects where clearly the wrong instrument was used when another would have been more appropriate.

The TA instrument was, for most projects, used in situations where there was a clearly identified need and significant results and benefits were achieved by the use of this instrument that would not have been achieved without it. The TA instrument was essential for ensuring that highly complex infrastructure projects were completed on time and to specification and cost, examples include the large scale grid extension project in Egypt (ENER/PowerTrans/EG #31). The TA instrument also contributed to transition impact (e.g. commercialisation of public transport (TRANS/MetroRehab/AM #9), institutional reforms (e.g. decentralisation of services (WASH/IWSP/EG #14) and longer term development goals. The TA instrument contributed to reform and institutional change especially where the challenges were capacity-related and not just reform-willingness related (e.g. creating capacity to minimise leaks in the water networks (WASH/SMWP/AM #33). In principle, TA could have been provided without blending and could be part of loan rather than provided as a grant. However in practice, even where TA is highly appreciated by national partners there is a reluctance by many governments to take loans for TA and especially foreign TA.

The TA instrument was principally used to secure professional project preparation and management and only in a few cases deliberately designed for longer term capacity development. Although the use of PMUs and IFI procurement procedures was essential in certain situations, in other cases their use potentially misses an opportunity to strengthen partner systems

(e.g. in the IWSP (WASH/IWSP/EG #14) project where considerable attention was paid on developing capacity to implement IFI specific procurement procedures rather than national systems). And, although there are many cases of the TA being partner owned and demand led (e.g. in Moldova (BANK/EFSE/MC #36) where TA was co-finance by the partner), there are also cases where it appears that the TA was accepted mainly because it was free and/or a condition of the loan (TA for procurement provided under a water project (WASH/SMWP/AM #33) where the implementing partner was already skilled in this area). TA was only applied where there was no need. But at the same time and despite the projects responding to needs, an in-depth capacity assessment and in particular the use of a results based capacity development plan was not (or at least very rarely) in place. The additional capacity developed at the end of the project is very rarely documented.

In most cases the interest rate subsidy and investment grants were used either to respond to IMF conditions or to provide additional benefits of a public good nature. In about half of the blending projects the use of the IRS or grant instrument is dictated by the IMF debt sustainability framework either by governments that are formally bound by the framework or by governments that prefer to follow its guidance even if not formally bound by it. In these cases the choice is between using the grant investment or IRS instrument or not going ahead with the project. Public good related reasons for using the grants included responding to situations where: i) the presence of environmental or other externalities (e.g. improvement to water quality in catchments in Columbia (WASH/IWRM/CO #20) (; ii) the presence of social and other effects which meant that benefits such as overcoming regional disparities and inclusion of poorer segments of the population could justify supporting the project with a grant that otherwise would not have gone ahead (an example is the investment grant used to connect poor areas to the water grid in Batumi (Georgia) whilst still ensuring a viable utility; iii) the presence of a demonstration or piloting effect that overcame an information related barrier (e.g. the introduction of large scale wind energy in the national grid (ENER/Wind Farm/EG #32;) iv) The government or sub-national borrower was more easily persuaded to adopt the reforms or conditions attached to the loan (e.g. increase in tariffs) since there is a substantial subsidy element ((WASH/SMWP/AM #33). In some cases it appeared that the interest rate subsidy and investment grants were used to soften the conditions of the loan and make the loan more competitive with non-EU sources of concessionary finance or even commercial finance (ENER/PowerTrans/EG #31)

Interest rate subsidy and investment grants were often combined with TA to good effect. About half the projects involving grants or IRS are also combined with the use of the TA instrument. In most other cases even where TA is not provided through the blending facility, it is provided from other sources either bilateral donors or the IFI itself. The EIB led project for power transmission in Egypt (ENER/PowerTrans/EG #31) is an example of combined use of grant and TA. The TA complemented the grant and the loan by ensuring effective project management and introducing social diligence and other benefits some of which have had a wider effect e.g. the process of public consultation has, according to reports, been more widely adopted in the Egyptian electricity transmission sector.

Relatively large investment grants and interest rate subsidies used for piloting new approaches provided a technical demonstration effect but potentially reduced the replicability and scaling up potential. Whilst these projects provide a technical demonstration it does mean that it will be challenging to replicate the technology and approach without access to similar levels of subsidy. Grants for pilot projects may provide a demonstration that the technical risks can be mastered, but replication is made the more difficult the larger the grant because the larger the grant the less chance that the financial risk can be covered in a non-concessional operation. An example is the planned waste management project in Armenia

(WASH/KotaykSW/AM #13) where the approach is unlikely to be affordable to the municipalities or citizens in the future..

Loan guarantees and risk capital are used where there is a need for them often in combination with TA which provides additional benefits. Guarantees and risk capital have been used less than the other instruments. The justification provided for using loan guarantee and risk capital instruments is generally convincing. The potential downside of loan guarantee and risk capital is generally not considered. The benefits evident in terms of improving access to finance of small borrowers, provision of longer loan tenors and attracting considerable private sector finance indicate that the chosen instruments have been well selected an example is the improved access to finance in Moldova as a result of a regional blending project. (BANK/EFSE/MC #36). In a few cases the expected benefits have not arisen (e.g. in Georgia where the banking sector was already liquid and the additional lines of credit (provided under the same regional project as in the case of Moldova) appeared unnecessary and evidence could not be found that they lead to greater access to finance (BANK/EFSE/MC #36).

4.3 Judgement criteria

JC 4.1 TA was used in situations where there was a clearly identified need for it

Summary for JC 4.1 TA was used in situations where there was a clearly identified need for it

- The use of the TA instrument was in most cases well justified and in some cases essential for the success of the blending projects.
- There is a reluctance to use loan funds for TA.
- The quality benefits of TA are associated with application of the IFI standards rather than the availability of grants.
- For complex infrastructure projects the TA instrument was often used to ensure a professional project management from feasibility to project completion.
- Although the use of PMUs and IFI procurement procedures is essential in certain situations, in other cases their use potentially misses an opportunity to strengthen partner systems.
- In the majority of cases there is strong evidence of TA being partner owned and demand led.
- As well as contributing to reforms and institutional change the TA instrument also supported the longer term sustainability of the projects
- The immediate benefits of the TA in terms of ensuring sound project management including procurement, design and construction supervision are clearly evident.
- The results from a longer term focus on capacity development are more evident in the financial sector than in the infrastructure or environmental /social interventions.

Conclusion: the JC is validated, the TA instrument was, for most projects, used in situations where there was a clearly identified need and significant results and benefits were achieved by the use of this instrument that would not have been achieved without it. The TA instrument was essential for ensuring that highly complex infrastructure projects were completed on time and to specification and cost. The TA instrument also contributed to transition impact, institutional reforms and longer term development goals; although there is scope for a more deliberate design of technical assistance for achieving institutional capacity development.

The use of the TA instrument was in most cases well justified and in some cases essential for the success of the blending projects. The detail and quality of the rationale presented for the TA varies. In some cases, particularly for the EBRD led NIF projects, the rationale is presented in detail and linked to the attainment of transition impact goals. But in many other cases the rationale is not presented in detail. However even for the cases where the rationale was not presented in detail there were no cases found among the projects examined where it is evident that

the TA was unnecessary or inappropriate as the chosen instrument for the blending project. The survey of EU delegations showed that all respondents found the rational for the TA to be strong.

Sources of information Project application forms, project monitoring and review reports for 15 projects from the sample that had pure TA: interviews with national partners; survey of delegation.
Quality of evidence: Strong

There is a reluctance to use loan funds for TA. It is not usually made evident why the relatively small cost of the TA could not be part of the loan. No cases in the sample examined were found where significant TA was part of the loan. For a sample of 15 projects the volume of TA was an average of 2.4% of the loan. In reality, based on interviews with IFIs and some government officials also during the field visits, the use of grants for TA arises because i) IFIs are reluctant to entrust project design and management of complex projects purely to national companies which may not have sufficient experience and ii) governments are reluctant to use loans for foreign TA.

Sources of information Project application forms, project monitoring and review reports: interviews with national partners.
Quality of evidence: Strong(the evidence is overwhelming that loans were not used for TA).

The quality benefits of TA are associated with application of the IFI standards rather than the availability of grants. It was further noted both in the survey and in discussions with a number of EUDs and project partners that the international standards and quality associated with the blending project were due to the involvement of the IFI and the application of their minimum standards rather than due explicitly to the grant e.g. one EUD noted in response to the survey that " *the quality of the project did not depend on our contribution, standards for environment, climate change and reaching the poor would have been imposed by AFD and EIB even if we had not provided a grant"*. In some cases such as the port project in Congo-Brazzaville (TRANS/PAPN/CG #41-42), the IFI and EUD conclude that the grant did allow some standards to be imposed that otherwise would not have been implemented (or accepted) by the beneficiary. (i4.1.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Indicative but not conclusive (although there are multiple sources of information that support this finding, they are based on an opinion and judgement on causality).

For complex infrastructure projects the TA instrument was often used to ensure a professional project management from feasibility to project completion. It is evident that the scale and complexity of the projects demanded a professional injection of resources. In some cases the technology and experience could only be obtained on the international market e.g. for the Geothermal project in Dominica (ENER/Geothermal/DM #40). In some cases the TA appeared to be mainly geared towards ensuing IFI procurement and other IFI procedures were followed. (i4.1.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Strong

Although the use of PMUs and IFI procurement procedures is essential in certain situations, in other cases their use potentially misses an opportunity to strengthen partner systems. There were no instances found of a substantial analysis of whether the partner systems were good enough –although the support to the Caprivi strip electrication project it was decided

that the national partner (NAMpower) had sufficient capacity and did not need a project management unit (ENER/C.Intercon/NA-ZM #1).

Using IFI procurement rules ensures a high degree of fiduciary assurance but it can also cause delay due to uncertainty in the procedures. In Egypt it was found that for the IWSP project (WASH/IWSP/EG #14), weak national partners at governorate level have been confused by the number of different procedures followed by the different PMUs established by different donor programmes. As well as drawing on scarce national resources the different procedures have led to long delays, required re-tendering and exposed the national partners to risks of contravening national procedures. Although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems. It can be noted that in the case of IWSP, the project was advancing a decentralised approach which involved the water companies getting involved in major procurement for the first time. For the energy sector where International Competitive Bidding (ICB) is the norm the same problem has not occurred.

Use of IFI procedures potentially misses an opportunity to strengthen partner systems. It is understandable that for large scale infrastructure that the primary focus should be on ensuring project success and standalone well-resourced PMUs are created to ensure this primary purpose. But there does in some cases seem to be an opportunity lost to more explicitly contribute to building up successful local structures for project management. The PMU approach is pragmatic but has the danger that if it is not integrated, then capacity is lost when the project is completed and winds up. A more nuanced use of the TA instrument may be justified in some cases. An energy transmission project in Egypt (ENER/PowerTrans/EG #31) is an instance where some flexibility was built into the project to lessen or increase the support to project management depending on the partner performance. (i4.1.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: More than satisfactory

In majority of cases there is strong evidence of TA being partner owned and demand In most cases the TA has been welcomed and in some cases (e.g. in the Armenia water supply projects, WASH/SMWP/AM #33) partners have taken an active role in directing and adjusting the TA scope. The survey of EU delegations revealed that most delegations found the TA to be partner owned and demand led. This was also confirmed during the field visits. The TA provided to FINDETER in Columbia (MULTI/SustDev/CO #19) for instance was well targeted and within the absorption capacity of the organisation. In Moldova the field work found that the TA was strongly partner owned, in part perhaps because there was a mechanism in place whereby the partners themselves shared the cost of the TA (BANK/EFSE/MC #36). An explanatory factor behind the success of the TA is that it has been directed at highly concrete and essential tasks such as detailed design which were clearly beyond the national capacities (for example in the upgrading of the Metro (TRANS/MetroRehab/AM #9). But in some instances, the TA instrument appears to have a condition has been used to provide international TA as a grant. This does not invalidate the TA but especially where the TA is directed towards contributing to internal reforms it does call into question the likely future success. This effect is noted by a midterm review as a contributing factor behind disappointing results on improving client performance in the water and sanitation sector in Egypt (WASH/IWSP/EG #14). (i4.1.2).

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Strong

As well as contributing to reforms and institutional change the TA instrument also supported the longer term sustainability of the projects - without using the TA instrument it is difficult to see how many of the blending projects could have contributed to reform and institutional change in the way they did - covenants are not enough if the challenges are capacity and not just willingness related. Most of the technical assistance provided was very well aligned to national goals and reform programmes. At the more immediate level, for utilities and partners involved in operation of services, the TA instrument was used to improve institutional and managerial performance and enhance sustainability. In the financial sector the TA was mainly engaged and in some cases achieved impressive results in bringing about a change in the internal procedures and mind set of partner financial institutions so that they were more open to lending to the potentially riskier SME segment. The large scale and longer term efforts in the Neighbourhood region are good examples of this effect (BANK/EFSE/MC #36 and IND/SME Facility/REG #12) as are efforts in East and West Africa to promote lending for renewable energy and energy efficiency projects. (ENER/Env.Credit lines/REG #43-44). (i4.1.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Strong

The immediate benefits of the TA in terms of ensuring sound project management including procurement, design and construction supervision are clearly evident. These very complex and large scale projects which often involved multiple countries particularly under the ITF, were in general very well managed given the complexity of the projects and the often difficult operating environment. Although this does not mean, of course, that they were without delays and cost over runs. It means that such delays and cost over runs were minimised. The IFIs have adopted a rigorous process for selection and monitoring of the TA and this has led to generally good quality results. In most cases, world class consultancy companies have been engaged and highly experienced resources have been deployed. (i4.1.3)

Sources of information: TA consultancy reports, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Strong

The results from a longer term focus on capacity development are more evident in the financial sector than in the infrastructure or environmental /social interventions. The technical assistance offered for the financial sector to support on-lending to partner financial institutions was usually focussed on capacity development and improving core procedures, raising awareness and ensuring an institutional sustainability. Examples are the support in the Neighbourhood region (BANK/EFSE/MC #36) and East and West Africa (ENER/Env.Credit lines/REG #43-44 - 2010). In these cases the results orientation goes beyond just the immediate concrete disbursement of loans but also sets up the conditions for perpetual improvement in the banking system. A longer term capacity development approach is evident in some of the infrastructure and environmental projects but not as systematically as the financial projects. The EBRD focus on documenting the transition impact tends to ensure that the TA instrument is well directed towards achieving longer term transition and sustainability aims. (i4.1.3)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: more than satisfactory

JC 4.2 Interest rate subsidies and investment grants were used in situations where there was a clearly identified need for them.[45]

Summary for JC 4.2 Interest rate subsidies and investment grants were used in situations where there was a clearly identified need for them

- Close to half the projects where the interest rate subsidy and investment grant instruments were used were in countries under the IMF debt sustainability framework.
- A variety of reasons are put forward for using investment grant and IRS instruments (at a level beyond minimum IMF limits or in countries not part of the debt sustainability framework); in many cases the reasons given are solid and represent an appropriate use of the instrument.
- There are also some cases where it appears that a grant was needed before the government or sub-national borrower would accept the project.
- Relatively large grants used for piloting new approaches provided a technical demonstration effect but potentially reduced the replicability and scaling up potential.
- The joint use of grant and TA instruments is common and has provided a combination of benefits.
- There is evidence of significant benefits arising from the use of the grant instrument especially in terms of meeting social needs and addressing externalities.
- In the financial sector there is evidence, at least at the level of intention and based on reports, that the grants provided through investment grant and IRS instruments are passed to the end beneficiaries such as the SMEs and not retained by the partner financial institutions.

Conclusion: the JC is validated, the interest rate subsidy and investment grants are used where there is a need for them often in combination with TA which provides additional benefits. In many cases the use of the IRS or grant instrument is dictated by the IMF debt sustainability framework. In many cases the IFI is faced with the choice of using the instrument, finding another source of grant finance or not going ahead with the project.

Close to half the projects where the interest rate subsidy and investment grant instruments were used were in countries under the IMF debt sustainability framework (given that the volume of TA alone is rarely enough to meet the minimum concession levels). Table 2 below indicates that about half of the projects involving grants/IRS or loan guarantee/risk capital (51 out of 106) grants were for countries' that were under the IMF conditions (see also the analysis of EQ 3).

Table 30 - Projects under IMF conditions

Projects (number)		Total	TA only	Grants
Single country	Under IMF	51	15	36
	Not under IMF	71	29	42
Regional	ITF	48	33	15
	Not ITF	33	20	13
All	Under IMF	99	48	51
	Not under IMF	104	49	55
	Total	203	97	106

Source: ADE database

[45] IRS was only used in the AITF, in the other facilities the purpose was achieved via investment grants. There are facilities like LAIF or CIF that have never used IRS and there are no proposals in the pipeline for IRS.

Sources of information Statistical inventory information, IMF/DSF l
Quality of evidence: strong
A variety of reasons are put forward for using investment grant and IRS instruments (at a level beyond minimum IMF limits or in countries not part of the debt sustainability framework); in many cases the reasons given are solid and represent an appropriate use of the instrument. The reasons include responding to situations where: i) the presence of environmental or other externalities where, because of the low financial internal rate, the borrower cannot sustain a pure loan without a grant element but where the economic internal rate of return is significantly greater and justifies the investment. (In principle, for a sovereign loan, this should only apply where the externalities are of a global or regional public good); ii) the presence of social and other effects which mean that benefits such as overcoming regional disparities and inclusion of poorer segments of the population can justify supporting a project with a grant that otherwise would not go ahead because it was judged financially unviable; iii) the presence of a demonstration or piloting effect that will overcome an information related barrier; iv) the government or sub-national borrower is more easily persuaded to adopt the reforms or conditions attached to the loan (e.g. increase in tariffs) if there is a substantial subsidy element. These reasons are solid although not always easy to prove. Based on the cases examined the use of the instrument provided clear benefits. The view of the delegations surveyed was more mixed. In the survey of some 36 delegations, 67% of the 17 respondents that replied on this issue reported that the there was a high or moderate degree of investment grants/ IRS leading to improved project quality. A significant proportion (24%) reported that there was a low degree or no influence. Some 60% of 20 respondents reported that investment grants/IRS addressed externalities and/or market failure to high or moderate degree with a very significant proportion (40%) reporting that the was only a low degree or no benefits of this type from investment grants/ IRS. (i4.2.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: more than satisfactory

There are also some cases where it appears that a grant was needed before the government or sub-national borrower would accept the project. Assuming the project is in the government's or borrower's interest and is economically and financially viable this line of justification is somewhat weak. The danger is that the presence of a subsidy can distort national decision making and lead to prioritisation of projects that are promoted by IFIs rather than by national or regional sponsors. There were also some cases where it appeared that the demand for a subsidy was opportunistic or caused because the decision making horizon of the borrower was very short. This could arise when the decision maker is a mayor or elected municipal council and the benefits will only arise beyond their elected tenor. In one of the cases examined (ENER/Wind Farm/EG #32)[46] it was also apparent that the grant softened the conditions of the loan and made it more competitive with either commercial or non-EU sources of concessionary finance. (i4.2.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Indicative but not conclusive (although there are multiple sources of information that support this finding, they are based on an opinion and judgement on causality).

Relatively large grants used for piloting new approaches provided a technical demonstration effect but potentially reduced the replicability and scaling up potential. The waste management project in Armenia (WASH/KotaykSW/AM #13) with its relatively high grant

[46] Internal note to self – double check this with the transmission project

rate of 41% (which is higher than IMF minimum conditions) is justified by the need to pilot projects to encourage greater adoption of good EU compliant waste management practices. But whilst this may provide a technical demonstration it does mean that it will be challenging to replicate the technology and approach without access to similar levels of subsidy. Providing a large grant could in this case have the effect of using technology or approaches that limit the future scaling up potential. (i4.2.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: Indicative but not conclusive (although there are multiple sources of information that support this finding, they are based on an opinion and judgement on causality).

The joint use of grant and TA instruments is common and has provided a combination of benefits. In some cases the blending facilities provided grants that are used for both TA and as an investment grant or provided as an interest rate subsidy. About half the projects involving grants or IRS are also combined with the use of the TA instrument. In most other cases even where TA is not provided through the blending facility, it is provided from other sources either bilateral donors or the IFI itself. The EIB lead project for power transmission in Egypt (ENER/PowerTrans/EG #31) is an example of combined use of grant and TA. The TA complemented the grant and the loan by ensuring effective project management and introducing social diligence and other benefits some of which have had a wider effect e.g. the process of public consultation has, according to reports, been more widely adopted in the Egyptian electricity transmission sector. (i4.2.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: strong

There is evidence of significant benefits arising from the use of the grant instrument especially in terms of meeting social needs and addressing externalities as well as improving project quality. The projects where grants are provided for renewable energy, energy efficiency and water and sanitation which amount to over 50 percent of the blending portfolio have all, inherently, provided environment benefits and often contributed to regional or even global public goods such as reduction of greenhouse gases or reduction of air or water pollution in shared air sheds and water sheds. The grant instrument used for water and sanitation projects in Armenia and the energy transmission project in Egypt have extended services to more remote communities and reduced regional disparities. It was confirmed in Armenia for instance that the programme to provide water supply and especially wastewater treatment in regional towns was conceived to bridge regional disparities and would not have been done if a grant element had not been in place due to the difficulty in raising the tariff to full cost recovery levels in a short period of time. There are several instances where it is clear that grants have led to the adoption of more robust and sustainable technology. The high quality construction works at the El Zayt wind farm in Egypt (ENER/Wind Farm/EG #32), the quality of the rolling stock for the Yerevan metro in Armenia (TRANS/MetroRehab/AM #9) and the improvements made at the port in Pointe Noire in Congo Brazzaville (TRANS/PAPN/CG #41-42) are all examples, verified at field level of how the grant and IRS instrument has led to improved project quality. (i4.2.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: strong

In the financial sector there is evidence, at least at the level of intention and based on reports, that the grants provided through investment grant and IRS instruments are passed to the end beneficiaries such as the SMEs and not retained by the partner financial institutions. An example of this is the EIB window of a credit facility for SMEs (IND/SME Facility/REG #12) where the credit enhancement support is provided in the form of interest-free EU funded loan co-financing of up to 10%, to be used as a 0% interest-bearing portion of the loan by the EIB, to blend with its traditional loan to eligible SMEs. The benefit of the interest-free portion is reportedly entirely passed through to the SME borrowers. But it is not so clear for the infrastructure related investments. (i4.2.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: more than satisfactory

JC4.3 Guarantees and risk capital were used in situations where there was a clearly identified need for them.

Summary for JC 4.3 Guarantees and risk capital were used in situations where there was a clearly identified need for them

- Guarantees and risk capital have been used less than the other instruments.
- The justification provided for using loan guarantee and risk capital instruments is generally convincing.
- The potential downside of loan guarantee and risk capital is not usually considered.
- Projects that used loan guarantee and risk capital instruments in combination with TA brought additional advantages.
- The benefits evident in terms of improving access to finance of small borrowers and provision of longer loan tenors indicate that the chosen instruments have been well selected.

Conclusion: the JC is validated, loan guarantees and risk capital are used where there is a need for them often in combination with TA which provides additional benefits. The potential downside of loan guarantee and risk capital is not usually considered.

Guarantees and risk capital have been used less than the other instruments. Of the total number of projects (203) less than 10 involve loan guarantees or the use of risk capital. All projects that use this type of instrument are regional in nature and focus on financing for SMEs. Where the SMEs are specifically targeted it is usually within small scale renewable and energy efficiency. There is a growing interest in using these instruments and their use is increasing over time. One reason for the lower use is that the instrument is more complex than the investment grant and less suited to conventional infrastructure projects which have tended to be a higher level of readiness. (i4.3.1)

Sources of information: inventory information
Quality of evidence: Strong

The justification provided for using loan guarantee and risk capital instruments is generally convincing. In some cases the arguments made in project application and documentation, although plausible, could be further supported by providing data to back up the contentions the guarantee or risk capital instrument is responding to and bridging a market failure. Statements on market failure and presence of environment and social externalities are often

anecdotal and can be prone to overestimation which makes it more important to provide solid examples. Where projects have a longer track record, either because they have been started before application for blending grants or because they are entering a second phase, there is more information on which to justify decisions. (i4.3.1)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: more than satisfactory

The potential downside of loan guarantee and risk capital is not usually considered. Loan guarantees when combined with lines of credit in foreign currency can expose small, vulnerable borrowers to considerable currency risk. There are however some cases where the lines of credit have arranged so that MSMEs can borrow in local currency. There are also other potential concerns such as low financial additionality as the loans might have been given even without the guarantee and the fact that in some cases the guarantee funds are not addressing fundamental market failure such as the absence of adequate collateral to secure borrowing or inadequate property rights. These instruments often have high set up and transaction costs. (i4.3.1)

Sources of information Project application forms, project monitoring and review reports
Quality of evidence: more than satisfactory

Projects that used loan guarantee and risk capital instruments in combination with TA brought additional advantages – as noted earlier for grants and IRS, there is evidence that combining guarantees with TA has been highly beneficial. Partner Financial Institutions were able to benefit from TA to improve risk management and other areas such as engagement in value chain financing which increased the impact of the loan guarantees and risk capital. An example is the Georgian Agricultural Finance Facility which is one of the sub-actions supported through loan guarantees by the Eastern Partnership SME finance facility (BANK/EFSE/MC #36). Under this project the partner financial institutions have adopted more sophisticated value chain financing and targeted SMEs all along the value chain from producer to processor to trader and exporter. (i4.3.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs
Quality of evidence: more than satisfactory

The benefits evident in terms of improving access to finance of small borrowers and provision of longer loan tenors indicate that the chosen instruments have been well selected. The projects examined targeted SMEs and sectors such as agriculture and renewable and energy efficiency and deliberately excluded pure trading or property speculation. The loans are generally small (less than Euro 20,000) and the tenor longer than seasonal agricultural lending. There are indications that the projects such as the ones that operate in the Neighbourhood region (IND/SME Facility/REG #12 and BANK/EFSE/MC #36) have by virtue of the size and outreach have the capacity in the future to achieve a situation where the market mechanisms can take over. There was on example in Georgia, of the otherwise successful multi country EFSE program, where the access to finance was not improved because the banking system was already relatively liquid and did not need the additional lines of credit that were being offered (BANK/EFSE/MC #36) (i4.3.2)

Sources of information Project application forms, project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs, interviews with beneficiaries.
Quality of evidence: more than satisfactory

Summary of the Data Collection Process for Evaluation Question 4

Judgement criteria information availability (go to indicator level if needed)	
JC 4.1	4 for the justification which is outlined in the contribution requests and reporting 4 for evidence of the benefits (after field visit)
JC 4.2	
JC 4.3	
1= low – 5 = high	

Hypotheses to be tested in the field	**Evidence**
▪ TA provided was partner owned and demand led	▪ Confirmed – both through survey and interviews of delegation and national partners
▪ The IRS /IG instrument was essential when it was used– i.e. other sources of concessionary finance were not available	▪ Partly confirmed – in some cases the IFI own sources of concessionary finance are used- EU grants allow a greater volume of concessionary finance as the volume would otherwise be limited by the internal sources or other trust fund or similar sources.
▪ The beneficiary /partner was informed and took part in the choice of instrument	▪ Confirmed – all interviews with partners indicated that the partners were involved and in agreement with the choice of instrument.
▪ Claims on the benefits reached (linked to EQ 6 and 9)	▪ Partly confirmed – the benefits presented in the grant application were in general also reached in practice, although in many cases that might be due to IFI standards rather than the grants themselves. In a few cases, the access to finance benefits (e.g. in Georgia where the banking system was highly liquid) did not appear to take place.
▪ No unexpected disadvantages in using the instrument(s)	▪ Confirmed – none detected during field work
▪ Was the incentive environment well enough understood for TA to be effective e.g. (WASH/IWSP/EG #14)	▪ Confirmed – the main topic was the wisdom of supporting projects that depended for their sustainability on future tariff reforms. It was found appropriate to proceed in this way as service improvements need to precede tariff increases.
▪ Is it right to start and continue and wait for more timely conditions to arrive? e.g. WASH/IWSP/EG #14	
▪ Did the project management work well (since it was a major reason for TA)? e.g. ENER/PowerTrans/EG #31	▪ Confirmed – the quality of the PMU and linked services was found to be high in all the projects visited.
▪ Was the investment needed to persuade the borrower to borrow from the IFI (which could then outcompete other sources)? e.g. ENER/PowerTrans/EG #31	▪ Partly confirmed – in some cases, it appears that IFIs from Europe and elsewhere were in competition and the grant was a factor in their final selection.
▪ Does a grant inadvertently crowd out commercial finance? e.g. WASH/SMWP/AM #33	▪ Not confirmed – no instances of this were found
▪ Does a large grant actually make it more difficult to replicate the EU standards? e.g. WASH/KotaykSW/AM #13	▪ Partly confirmed – at least in the case of the waste management sector in Armenia.

4.4 Indicator analysis

JC 4.1 TA was used in situations where there was a clearly identified need for it

I-4.1.1 A rationale and justification for TA is provided in the project documentation

TA accounted for 33.7% of the total grant volume (Eur 578.6 million out of a total of Eur 1,724 million). For 15 projects with pure TA (where sufficient data was available), the TA amounted to 2.4% of the total project cost which is relatively modest given the complexity of the projects.
In most cases the use of the TA instrument is well justified but the quality of the rational and justification put forward for TA varies considerably between the projects. In general, a more in-depth justification is offered for the NIF and particularly the EBRD projects than for the others. This is probably linked to the EBRD emphasis, in their mandate and internal selection and board approval procedures, on identifying, maximising and documenting the transition impact.

In many cases the available justification is very short and sometimes reduced to little more than a single sentence that says TA is needed but without offering more explanation. Where the projects have specified the tasks that the TA will need to carry out, the implicit justification is clearer, for example the project to support geothermal energy in Dominica (ENER/Geothermal/DM #40) provides a very detailed account of the activities of the TA where the need is self-evident. It is evident that earlier projects are less detailed in their explanation of why TA is needed. Later projects that follow the new guidelines introduced after 2012 are in general more elaborate in their explanations.

The reasons put forward for TA fall into different categories and there is often a combination of the following reasons presented:

- To ensure that obligatory IFI procurement procedures are followed
- To provide professional project management services given the complexity and size of the project and the relative inexperience of the implementing partner – often this involves the setting up of a PMU
- To carry out technical or institutional studies, in many cases this would also involve environmental impact studies
- To ensure high quality design and construction supervision making use of international experience
- To assist in the implementation of institutional and/or sector level reforms e.g. undertake studies on tariff levels
- To build the capacity of partners to replicate, scale up and continue the project activities

Examples of projects that draw on these reasons either explicitly or implicitly are given below in table 29.

Table 31 - Reasons for use of TA grant instrument

Reasons	Examples
To ensure that obligatory IFI procurement procedures are followed	A not untypical consideration is reflected by the statement: "*The promoter is capable of implementing the project, but significant technical assistance for procurement, management and monitoring is required to ensure compliance with the bank requirements*". It is also noted in other projects, often in confidential documents, that the avoidance of corruption is an additional reason for providing TA to ensure procurement is done correctly.
To provide professional project management services given the complexity and size of the project and the relative inexperience of the	The large electricity transmission project in Egypt (ENER/PowerTrans/EG #31) where it is noted that "*To mitigate the project implementation risks, the promoter has agreed to establish a dedicated Project Implementation Unit, which will be reinforced by external experts*" (Source: EIB Internal Appraisal report April 2010). In this case it is also noted that a

Reasons	Examples
implementing partner – often this involves the setting up of a PMU	flexible approach should be taken on TA for project management so that if the national project management capacity prove higher or lower than expected, more or less TA can be devoted.
To carry out feasibility, technical or institutional studies	The introduction of advanced landfill techniques in Armenia (WASH/KotaykSW/AM #13) required in-depth studies on a topic that was comparatively new for the country. The in-depth and independent study to develop an transport master plan for Namibia (TRANS/MasterPlan/NA-REG #5)
To ensure high quality design and construction supervision making use of international experience	The use of well-renowned consultants for designing and supervising the transmission lines in the Caprivi Strip (ENER/C.Intercon/NA-ZM #1)
To assist in the implementation of institutional and/or sector level reforms e.g. undertake studies on tariff levels	The Integrated Water and Sewerage programme in Egypt (WASH/IWSP/EG #14) where the TA is closely linked to implementing and supporting the EU's policy reform agenda in the water sector i.e. raising tariffs, decentralisting decision making and operations to the governorate level, putting in performance improvement measures (both technical and managerial).
To build the capacity of partners to replicate, scale up and continue the project activities	The SME facility (IND/SME Facility/REG #12) in the Neighbourhood region where the TA aims at "*maximising the ability of the Partner Financial Institutions to service the needs of the SME sector as well as to expanding their SME financing to new areas and to develop new products for the target group, particularly in key, under-banked regions of the eligible countries*" (Source: EBRD, Contribution request, June 2010

Table 30 provides an analysis of the role of TA as an instrument in responding to the challenges that blending is meant to address.

Table 32 - Role of the TA instrument in responding to the specific challenge for blending

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Role of the TA instrument
SME Facility - EBRD / KfW window (IND/SME Facility/REG #12)	**To finance SMEs** (in risky economies)	**To lower the cost of borrowing for SMEs** (by passing on the grant element to the SMEs and encouraging the banks to view loaning to SMEs more favourably) – [TA/loan Guarantee]	Suitable as it supported partner financial institutions to adopt efficient lending procedures for SMEs.. There has been a significant lending to the SME sector with small loans and longer tenors e.g. in Georgia
Improved Water and Wastewater Services Programme (WASH/IWSP/EG #14)	**To improve water sanitation services** (In the densely populated Nile Delta)	**To improve capacity of local utilities** (in terms of project management and operations) – [TA]	Suitable as technical assistance required by the governorate based utilities but the readiness of the utilities to make good use and the structure of the TA has been less than optimal – now under restructuring
Egyptian Power Transmission (ENER/PowerTrans/EG #31)	**To increase and improve access to electricity** (in the more remote, unserved regions of the country)	**To ensure the project was well managed and to introduce social diligence** (changing normal practice so it was more consumer orientated) – [TA/IG]	Suitable as it is a massive project and flexible as it is noted that the use of PMU support can vary. It appears that public consultation has been introduced but how extensive is not known yet
Armenian Small Municipalities Water Project (WASH/SMWP/AM #33)	**To improve water supply and sanitation services** (by upgrading the facilities, extending supply, building sanitation works and improving operations)	**To commercialise and modernise management of utilities** (reducing regional disparities) – [TA/IG]	Suitable as the small scale utilities need skills to operate more commercially, become consumer orientated and move beyond the Soviet style management.
Geothermal Energy	**To increase energy generation and access**	**To ensure that the best concession arrangements are selected**	Suitable as Domenica did not have experience in this area. The project is completed satisfactorily

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Role of the TA instrument
(ENER/Geothermal/DM #40)	(by exploiting and exporting geothermal energy)	(the technology is new and Domenica is not familiar with the most appropriate institutional arrangements) – [TA]	The advice on concession, legal and institutional arrangements is appreciated
Energy efficiency credit lines. (ENER/Env.Credit lines/REG #43-44)	**To finance energy related SMEs** (in risky economies)	**To give confidence to banks to lend to energy related SMEs** (by providing banks with better risk management and assessment tools) – [TA]	Suitable as it supported partner financial institutions to adopt efficient lending procedures for SMEs..

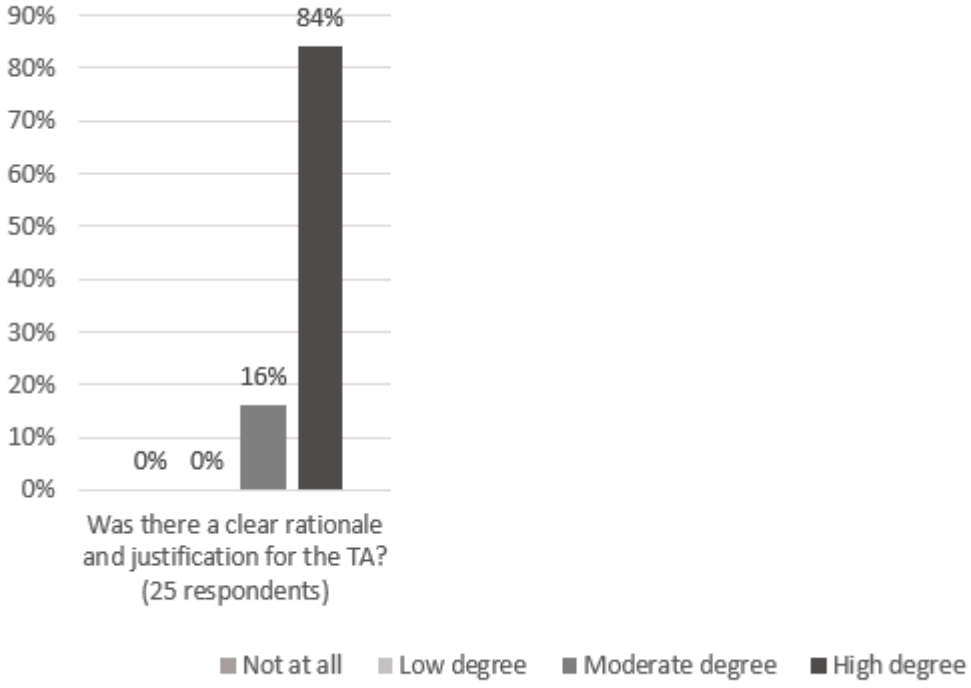
TA needs and capacity assessment - It is comparatively rare for the justification for the TA to refer to capacity assessments or any form of needs assessment. An exception is the geothermal energy project in Dominica ((ENER/Geothermal/ DM)) where it is noted "*The World Bank is also currently finalizing a capacity gap analysis which will enable to define more precisely and exhaustively the lack of capacities and needs for specific expertise. …Based on its exchanges with all stakeholders and the preliminary results of the World Bank gap analysis, AFD has thus determined with the government…a number of issues that need specific expertise…*" (Source: AFD, Dominica geothermal project, contribution request to CIF, March 2013). Evidence of capacity assessments were not found during the field trips to 12 countries with interviews on more than 30 projects.

In many cases a capacity assessment is not available or needed because experience of earlier phases is justification enough such as is the case with the EFSE facility in Eastern Europe (BANK/EFSE/MC #36). In other cases the capacity assessment is close to self-evident – for example where the project is piloting a new or innovative technology (e.g. introducing advanced landfill techniques in Armenia (WASH/KotaykSW/AM #13) or introducing new or changing current work practices and approaches (e.g. assessing and processing loans for energy efficiency and renewable energy for SMEs in East Africa (ENER/Env.Credit lines/REG #43-44) or ensuring greater attention on leakage control of water supply system in Armenia (WASH/SMWP/AM #33). In such cases it could be reasonably argued that since the topic is new, TA is needed. Nevertheless it would still be best practice to at least state this and provide supportive evidence.

Often, TA provided by the EU through blending is complemented by further TA provided by bilateral or other donors or by the IFI itself. All the TA and consultancy services for the El Zayt windfarm in Egypt (ENER/Wind Farm/EG #32) are financed directly using the internal funds of KFW. The TA for the Metro improvement project in Yerevan, Armenia (TRANS/MetroRehab/AM #9), which uses investment grant for the EU blending operation, is financed by bilateral donors who have technical cooperation trust funds with the EBRD. Given that there are other sources of funds for TA, it is rarely made clear in the documentation why these potential funds could not be used and why therefore EU blending funds were necessary. It is not clear if the EU TA funds are seen as a first or last resort. The IFIs claim that the expense, difficulty and delay involved in seeking EU funding through the blending facilities make the use of TA funds a last resort for the programme officers involved.

In the survey of some 36 delegations, 84% of the 25 respondents that replied on this issue reported that the there was a clear rationale and justification for the TA. A further 16% reported that there was a moderate degree of justification. (See figure 4)

Figure 4 - Survey response on rational for TA



I-4.1.2 TA was partner owned, demand led and results orientated

There are a number of cases where there is evidence of strong partner ownership and a demand led approach. An example is the technical assistance provided for the municipal water supplies in Armenia (WASH/SMWP/AM #33) where the efforts to improve operational efficiency of the municipal utility operations was recognised as important by the partners themselves and is confirmed by ROM findings. The ROM mission made in 2013 also notes that some of the TA was cancelled by the partner when it became clear that it was not needed because other assistance programmes were providing similar support. (Source: EU, ROM MR 145688.01 March 2013). This change was apparently a process led by the client not the IFI or the TA themselves. To that extent, it could be concluded that a truly demand led process of technical assistance delivery has taken place. The field mission confirmed that in this case the TA was demand led and partner owned – although it was noted that the TA provided for the project implementation unit was not necessary as the utility (which was an international company) had sufficient expertise (the TA for the design and construction supervision was necessary and much appreciated). There are some instances, particularly in the finance sector where the TA demand from partner banks and sponsors exceeded the expectations and the client demanded more (Source: AFD Additional paper on Engaging Banks in financing energy transition projects in East Africa – May 2013). The field mission in Columbia (MULTI/SustDev/CO #19) noted that the TA provided to FINDETER corresponded well with the scale and nature of the needs and was within the absorption capacity of FINDETER. The field visit to Namibia to the project for bringing electricity from Zambia to the Caprivi strip confirmed as case where it was found that TA was not needed because there was a strong national partners, in this case Nampower, who could implement the project without TA support.

Most of the technical assistance provided was well aligned to national goals and reform programmes. In most cases there is no doubt that these goals and reforms had the support of the

national authorities at the highest level (and this was confirmed for all the projects visited under the field work). However, the extent to which the utilities and partners who had to implement the sometimes painful reforms is not so clear. For the programme of support to water and waste water in Egypt (WASH/IWSP/EG #14), for example, it is clear from the documentation and mid-term review that the improvements th at the TA is aimed at, are part of nationally owned reforms but they were not wholeheartedly adopted by the regional water and sewerage companies, an observation that was confirmed during the field visit (Source: BCT, IWSP I Mid-term review report, January 2014 and IWSP project visit).

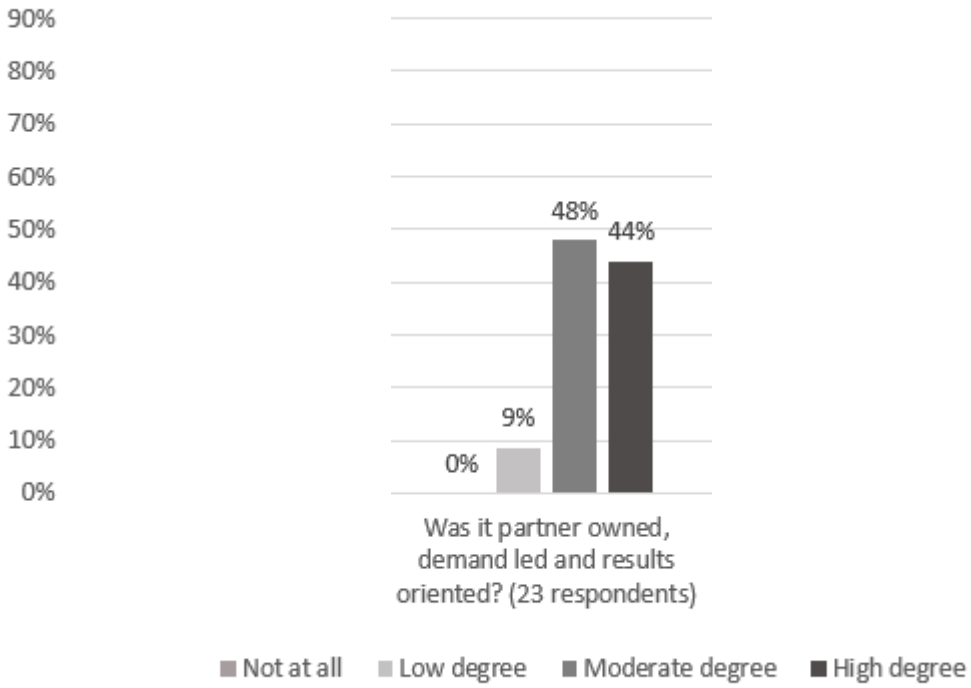
Much of the TA provided was for feasibility studies, project management, procurement and related tasks. These types of activities are inherently results orientated in terms of achieving the concrete outputs such as the completion of feasibility study, an EIA, the launch of a tender, and the completion of construction supervision tasks. The results are reported on systematically and followed up vigorously as any delay or defect will usually significantly influence the final cost of the project. However, the wider results in terms of capacity development and ensuring that partners can, after the project, run similar projects or PMU operations are not as clearly defined or monitored. In many cases capacity development is not identified as a result, particularly for infrastructure projects. In some cases this could be justified as the project is a "one-off" and unlikely to be repeated and therefore the main aim is to successfully implement the project and there is not a need to develop capacity to replicate the project. But in others such as the extension of electricity access in Southern Africa (ENER/C.Intercon/NA-ZM #1) or Egypt (ENER/PowerTrans/EG #31) where it is relevant to build capacity to the future, there does not seem to be much attention placed on this aspect. It is understandable that for large scale infrastructure that the primary focus should be on ensuring project success and standalone well-resourced PMUs are created to ensure this primary purpose. But there does in some cases seem to be an opportunity lost to more explicitly contribute to building up successful structures for project management. The PMU approach is pragmatic but has the danger that if it is not integrated, then capacity is lost when the project is completed and winds up.

For the EBRD led NIF projects the focus on documenting the transition impact tended to make the TA aims clear and explicit. The practice of reporting annually against transition impact indicators for each project also ensured that the technical assistance which is usually closely related to achieving transition gaols is results orientated and progress attainment of results is monitored closely.

The technical assistance offered for the financial sector to support on-lending to partner financial institutions was usually more focussed than the infrastructure and environment related projects on improving core procedures, raising awareness and ensuring an institutional sustainability. Examples are the support in the Neighbourhood region (BANK/EFSE/MC #36) and East and West Africa (ENER/Env.Credit lines/REG #43-44 - 2010). In these cases the results orientation goes beyond just the immediate concrete disbursement of loans but also sets up the conditions for perpetual improvement in the banking system. Interviews in Moldova on the EFSE Development facility for consultancy and TA confirmed the value of this support for the development of the financial sector. The TA is both demand based, and arises from IFI recommendations to the financial intermediaries. It can take the form of a preparatory TA (support to downscaling, drafting a strategy, developing products, build portfolio, etc.) for institutions that do not have yet the profile to be supported by EFSE. The cost of the TA is shared among the beneficiaries and EFSE, depending on the profile of the beneficiary (max. 30% for MFIs, and 50% for banks). Partners are willing to get access to a risk sharing (such as the SME FF 1st loss cushion) or an insurance mechanism, especially as they operate in agriculture. The cost sharing of the TA is an element that indicates that it is in high demand.

In the survey of some 36 delegations, 94% of the 23 respondents that replied on this issue reported that the there was a high or moderate degree of TA being partner owned, demand led and results orientated. Some 9% reported that there was a low degree. (see figure 5)

Figure 5 - Survey response on the degree to which TA was partner owned, demand led and results orientated



I-4.1.3 Benefits from the use of TA are evident in terms of improved project quality

The immediate benefits of the TA in terms of ensuring sound project management including procurement, design and construction supervision are very evident. These very complex and large scale projects which often involved multiple countries particularly under the ITF were in general very well managed although this does not mean, of course, that they were without delays and cost over runs. It means that such delays and cost over runs were minimised. The IFIs have adopted a rigorous process for selection and monitoring of the TA and this has led to generally good quality results. In most cases, world class consultancy companies have been engaged and highly experienced resources have been deployed. The field work in 12 countries confirmed a widespread level of satisfaction with the use of TA and the benefits and contribution to project quality (for example for the complex transport projects in Mozambique notwithstanding the observation that for the Beira Corridor project (TRANS/Corridor/MZ #26) there were some weaknesses noted in the institutional design which could be traced back to TA.)

It was however noted both in the survey and in discussions with a number of EUDs and project partners that the international standards and quality associated with the blending project were due to the involvement of the IFI and the application of their minimum standards rather than due explicitly to the grant e.g. one EUD noted in response to the survey that " *the quality of the project did not depend on our contribution, standards for environment, climate change and reaching the poor would have been imposed by AFD and EIB even if we had not provided a grant"*. In some cases such as the port project in

Congo-Brazzaville (TRANS/PAPN/CG #41-42), the IFI and EUD conclude that the grant did allow some standards to be imposed that otherwise would not have been implemented (or accepted) by the beneficiary.

The review of the TA provided for the geothermal energy project in Dominica (ENER/Geothermal/ DM #40) gives an example where the TA has been explicitly examined. The review concludes that the first part of the TA (institutional and legal aspects) which involved some complex consideration of the best concession arrangements for the government, has been performed to the satisfaction of both the government of Dominica and AFD (Source: AFD, Dominica geothermal project, progress report 2 March 2015). As a result of this TA the government can proceed with confidence that the chosen concession arrangements are optimal, which is a significant benefit.

However project performance and evidence of improved project quality is often mixed and the TA in some projects was less effective than in others. An example is the Improved Water and Wastewater Services Programme in Egypt (WASH/IWSP/EG #14) where the mid-term review provides an extensive analysis of what was achieved by the TA but also points to some important short comings related to the way the TA packages were constructed, the performance of the TA and the response of the partners themselves. There are significant benefits from the TA as noted in the mid-term review but it is also concluded that it has not been easy to use the TA and the TA package has required significant restructuring. (Source: BCT, IWSP I Mid-term review report, January 2014). The mid-term review prepared by an independent team notes that "*Based on the documents reviewed the expert concludes that the performance improvement projects were implemented by the consultant with the expected professionalism and dedication and confirms that the produced documents are compliant with normal standards. However, it remains quite doubtful if and / or to what extent the implemented performance improvement projects do have a direct impact on performance improvements in the four governorates because most actions were only implemented as typical/piloting examples and the equipment needed for implementing spread-out field works were (even to date) not available. The consultant is unable to translate the undertaken quite considerable staff and financial efforts of the past three years into measurable performance improvement indicators".* The mid-term review concluded that substantial changes were needed in the delivery of TA services if the project goals were to be achieved. The recommended restructuring was undertaken following the mid-term review report. The mid-term review does not, at any stage, question the need for the TA or suggest that there is too much TA. On reflection it does appear that the goals that the TA were set out to achieve were probably too ambitious, especially given the unstable government and national politics at the time. Discussions held with the national partners during the field visit confirmed that there had been issues in the past with the design of the TA but that following the mid-term review, adjustments had been made which were found to be working well. This indicates that the mechanisms are in place in the blending projects to adjust as appropriate.

The energy transmission project in Egypt (ENER/PowerTrans/EG #31) provides an interesting and encouraging case of the longer term benefits of TA. There is evidence that the public consultation introduced by the project and TA has led to public consultation being adopted more widely as an official procedure in Egypt. If this is confirmed, it will ensure that future access to energy projects will be better able to address social goals and respond to the concern of existing and future consumers. It also introduces a market and client orientation into a massive organisation employing more than 100,000 people that is timely given the wider political changes at the national level in Egypt that support such transformation.

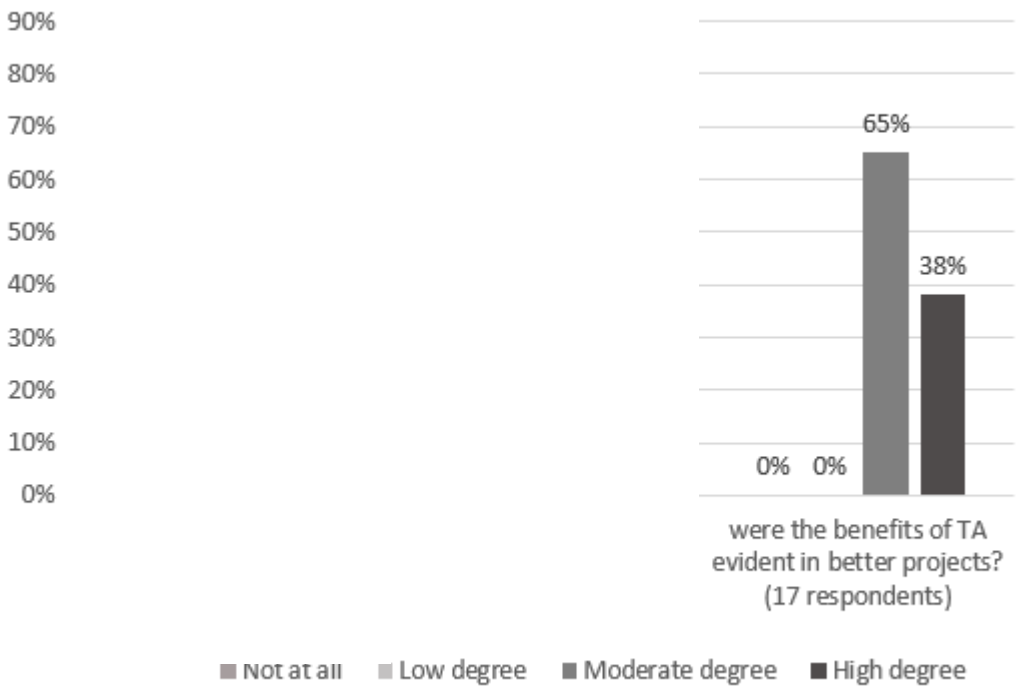
The ROM mission for the Armenian Small Municipalities Water Project (WASH/SMWP/AM #33) notes that explicit knowledge transfer has taken place which could indicate that the future

operations at municipal level will perform better in the future (Source: EU, ROM MR 145688.01 March 2013).

The projects that aim at encouraging lending for renewable energy and energy efficiency both in East and West Africa (ENER/Env.Credit lines/REG #43-44) are good examples where the TA instrument has been used to direct support to where it is most needed. Rather than use grant funds for capital or interest rate subsidy, the ITF funds have been used for explicit capacity development of participating banks so that market mechanisms can better function. The TA efforts focused on ensuring replicability and scaling up. It is noted however that in the East African project that there were long delays in the start- up of the project which meant that TA was deployed too early and additional resources were needed to extend the period of support. (Source: AFD Additional paper on Engaging Banks in financing energy transition projects in East Africa – May 2013).

In the survey of some 36 delegations, 35% of the 17 respondents that replied on this issue reported that the TA led to better projects where as some 65%% reported that this effect was moderate in degree. (see figure 6)

Figure 6 - Survey response on the effects of TA on better projects



JC 4.2 Interest rate subsidies and investment grants were used in situations where there was a clearly identified need for them.

I-4.2.1 A rationale and justification for interest rate subsidies and investment grants is provided in the project documentation

IRS accounted for 9% of the total grant volume (Eur 154.6 million out of a total of Eur 1,724 million). Investment grants accounted for 43.9% of the total grant volume (Eur 756.9 million out of a total of Eur 1,724 million)

In some cases a large investment grant has been provided through geographic instruments as well as through the blending facility. An example is the El Zayt wind farm in (Egypt ENER/Wind Farm/EG #32). Where this has taken place, the IFI and EUD involved have ensured the blending facility is fully aware and that the grants are coordinated. It appears from interviews with the IFIs that the NIF in particular in the first few years limited its grant (often to Euro 10 million) which is one explanation why grants were sought from both blending and geographic instruments.

For large projects, in countries under the IMF conditions, a significant investment grant or IRS is obligatory for sovereign loans. An example is the large project to improve transport in the Beira corridor (TRANS/Corridor/MZ #26). In such circumstances the TA requirements are not large enough to provide the degree of concession required and use of a loan guarantee / risk capital instrument is unnecessarily cumbersome. For such cases the use of the investment and/or IRS instrument is therefore self-evident. Without the use of the instrument, the project could not go ahead.

Where the IMF conditions are not in place or where a degree of concession above the IMF limits is proposed, the rationale for using interest rate subsidies and investment grants are related to a number of reasons or arguments:

- There are environmental or other externalities where the financial internal rate cannot sustain a pure loan without a grant element but the economic internal rate of return is significantly greater and justifies the investment. (In principle, for a sovereign loan, this should only apply where the externalities are of a global or regional public good nature).
- There are social and other effects which mean that benefits such as overcoming regional disparities and inclusion of poorer segments of the population can justify supporting a project with a grant.
- There is a demonstration or piloting effect that will overcome an information related barrier.
- The government or sub-national borrower will not accept the project without a grant subsidy.
- The government or sub-national borrower is more easily persuaded to adopt the reforms or conditions attached to the loan (e.g. increase in tariffs) if there is a substantial subsidy element.

It is not always easy from the project documentation to determine the original rationale for the grant or IRS. Some examples are given in table 4.3 below and also against the specific challenges that blending was responding to in the projects examined in detail (table 4.4). In most cases a single project would have more than one of these reasons for using the grant instrument. In relatively few of the cases examined, perhaps because the majority were in countries under the IMF debt sustainability framework, was there an explicit calculation offered to justify the grant.

Table 33 - Reasons for use of the investment grant or IRS instrument

Reasons	Examples
There are environmental or other externalities where the financial internal rate cannot sustain a pure loan without a grant element but the economic internal rate of return is significantly greater and justifies the investment.	The waste management project in Armenia (WASH/KotaykSW/AM #13) where a reduction in greenhouse gases is one of the reasons put forward for providing a grant above the IMF level.
There are social and other effects which mean that benefits such as overcoming regional disparities and inclusion of poorer segments of the population can justify supporting a project with a grant.	Armenian Small Municipalities Water supply project (WASH/SMWP/AM #33) – a clear rationale is put forward for proposing a grant higher than IMF minimum concession rates and justified by reducing regional disparities and overcoming affordability constraints: For the waste project in Armenia (WASH/KotaykSW/AM #13) it was noted that without the grant the poorer income band would

Reasons	Examples
	have to pay 2.7% of income and the average income band 2% but it is not documented to what level the grant would bring the income proportion devoted to waste down to.
There is a demonstration or piloting effect that will overcome an information related barrier.	For the waste management project in Armenia (WASH/KotaykSW/AM #13) – the relatively high grant rate of 41% which is higher than IMF minimum conditions is justified by the need to pilot projects to encourage adoption of good EU compliant waste management practices. But whilst this may provide a technical demonstration it does mean that it will be challenging to replicate the technology and approach without access to similar levels of subsidy and this will limit the scaling up potential.
The government or sub-national borrower will not accept the project without a grant subsidy or the project is less likely to go ahead using European IFIs	ENER/PowerTrans/EG #31 - "*the grant… enhances the likelihood that it will be accepted by the Government of Egypt which aspires a relatively large grant element in its external financing from DFIs and IFIs…"* (Source: NIF contribution request March 2010). The wind farm project in Egypt (ENER/Wind Farm/EG #32) where the justification for the grant is "*Securing financing for large-scale infrastructure project and to ensure donor harmonisation and complementarity of investments with offering an integrated European package at concessional financing rates (European flagship project)"* (Source: NIF contribution request October 2008)
The government or sub-national borrower will or are more easily persuaded to adopt the reforms or conditions attached to the loan (e.g. increase in tariffs) if there is a substantial subsidy element.	It is difficult to find documentation for this reason, it arises mainly from interviews and is a topic that will require investigation during the field phase.

Table 34 - Role of the investment grant and interest rate subsidy instrument in responding to the specific challenge for blending

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Role of the grant instrument
Seychelles Submarine Cable Project (COM/SubCable /SC-TZ #6)	**To provide fast broadband** (by fiber-optic cable rather than satellite)	**To ensure social dimensions in a for-profit project** (by promoting access to the internet for excluded and the poor) – [IG]	Suitable. Blending achieved a PPP and SPV Trust Fund that self-finances social applications of fast internet AND enabled commercial financing under tight HIPC conditions
Yerevan Metro Rehabilitation (TRANS/Metro Rehab/AM #9)	**To improve mass transport in the capital** (by rehabilitating a poorly performing metro system)	**To commercialise and modernise management of the metro** (making the system safer, more energy efficient, cheaper and providing a better service) – [IG]	Not clear if the grant was needed – most transition measures arose from TA inputs. The project has been a success in achieving its physical objectives and the transition impact also appears to have been achieved – although labour productivity is still low
Armenia Kotayk Solid Waste Project (WASH/Kotay kSW/AM #13)	**To improve management and disposal of waste** (by establishing a modern landfill facility)	**To encourage EU standards for waste management** (the project addresses a clear public good and also includes reduction in GHGs) – [IG]	Not clear - Waste management is more affordable due to the grant but Will the large grant actually make it more difficult to replicate the EU standards?
Beira Corridor (TRANS/Corrid or/MZ #26)	**To re-build transport** (post-war reconstruction of port and rail)	**To inject a commercial dimension** (by creating a PPP and enabling loan finance under HIPC regime) – [IRS]	Suitable - Blending achieved the PPP and (commercial) loan financing under tight IMF/ HIPC conditions.

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Role of the grant instrument
Egyptian Power Transmission (ENER/PowerTrans/EG #31)	**To increase and improve access to electricity** (in the more remote, unserved regions of the country)	**To ensure the project was well managed and to introduce social diligence** (changing normal practice so it was more consumer orientated) – [TA/IG]	Not clear - Was the IG needed to persuade the borrower to borrow from the IFI so as to outcompete other sources?
El Zayt wind farm (ENER/Wind Farm/EG #32)	**To increase energy generation** (both to improve the energy mix and security of supply)	**To demonstrate the viability of wind energy** (introducing higher quality construction and environmental considerations) – [IG]	Suitable – Although the total grant is small does it inadvertently crowd out commercial finance? . it is a new area and the quality of construction and environmental measures demonstrate new approaches The private sector is responding well to opportunities for PPA for wind farms
Armenian Small Municipalities Water Project (WASH/SMWP/AM #33)	**To improve water supply and sanitation services** (by upgrading the facilities, extending supply, building sanitation works and improving operations)	**To To commercialise and modernise management of utilities** (reducing regional disparities) – [TA/IG]	Potentially suitable as the utilities are remote and there are regional disparity and affordability issues The ROM reports indicates that the transition benefits have been achieved but main via TA.

There are also some cases where it appears that the grant was necessary because without it, the government or sub-national borrower would not have accepted the project. Assuming the project is in the government's or borrower's interest and is economically viable this line of justification is somewhat weaker although it can sometimes indicate that the decision making horizon of the borrower is short. This can arise when the decision maker is a mayor or an elected municipal council and the benefits will only arise beyond their elected tenor. In one of the cases examined it was also apparent that the grant softened the conditions of the loan and made it more competitive with either commercial or non-EU sources of concessionary finance.

In some cases where a very small grant amount is requested, the need for the grant can be questioned. For the El Zayt wind farm (ENER/Wind Farm/EG #32) the grant was Euro 10 million and was combined with an additional grant of Euro 20 million from the EU NIP. However even the combination of the two grants is only about 8% of the total cost of the project (Euro 340 million). Although small, this probably was enough to justify to the national authorities to use EU IFIs as opposed to purely commercial finance or financed provided through other concessionary arrangements.

I-4.2.2 Benefits from the use of interest rate subsidies and investment grants are evident in terms of improved project quality and addressing externalities.

To avoid repetition and simplify the analysis the two indicators I-.4.2.2 and I 4.2.3 are brought together under a new indicator I 4.2.2. which examines the benefits of both project quality and addressing externalities.

The clearest examples of improving project quality arise from the use of the TA instrument rather than the investment grant or interest rate subsidy but the combination of these two instruments often gives significant benefits. In many cases a grant or IRS is combined with TA which when used together appears to have offered a lot of advantages and has led to benefits. Of the 96 blending

projects financed so far through grants or IRS some 45 projects used some combination of TA with the grants or IRS. In most other cases even where TA was not provided through the blending facility, it was provided from other sources either bilateral donors or the IFI itself. An example of the former is the Metro project in Yerevan where the NIF provided a Euro 5million grant and bilateral donors provided Euro 1.63 million for technical assistance. An example of the latter is the El Zayt wind farm in Egypt (ENER/Wind Farm/EG #32) where the NIF and the EU NIP provided a total of Euro 30 million and the lead IFI (KFW) grant funded all the consultancy and technical assistance services.

The benefits of a combining grant and TA are documented through the transition impact monitoring carried out by the EBRD for the metro project for Yerevan in Armenia (TRANS/MetroRehab/AM #9) where a NIF grant was combined with technical assistance from other sources (not EU). The investment grant has delivered a range of benefits as evidenced by the ROM mission (Source: EU ROM MR 145392.02 August 2013. The main benefits that have been delivered include lower electricity costs, safer travel, greater commuter comfort and less noise. The grant does not seem to have led to guaranteed delivery on the covenant on labour efficiency (which demanded a reduction from 26 staff per carriage to 19) but the conditions on making substantial fare increases have been met. It is also noted that *"the transition impact potential comes from i) corporate restructuring/ commercialization, including development of business plan and introduction of MIS and IFRS, with TC assistance, ii) a tariff increase of 100 per cent, iii) the introduction of an incentive-based contractual arrangement and iv) stimulating a modal shift to a mass and energy efficient mode of transport."* (Source: EBRD TIMS review Nov 2013). Altogether, these benefits arise from a combination of technical assistance and subsidy of the construction works and rolling stock. TA by itself would not have been able to introduce these changes because the level of service and the quality of infrastructure could not have supported such measures. Customers would not have been willing to pay higher fares for the same or deteriorating quality of service and without new equipment the improved energy and other benefits in terms of operational control systems would not have been possible. Similarly, a grant alone without TA would not have been likely to lead to the benefits such as increasing the commercialisation and operational performance because the necessary experience and skill set was not available in-country. Whilst this reasoning and justification can be inferred and is inherent in the design what was often missing was the documentation of a more thorough identification and analysis at concept and monitoring stages of such effects both to strengthen the justification for grants and to direct them so they are most effective.

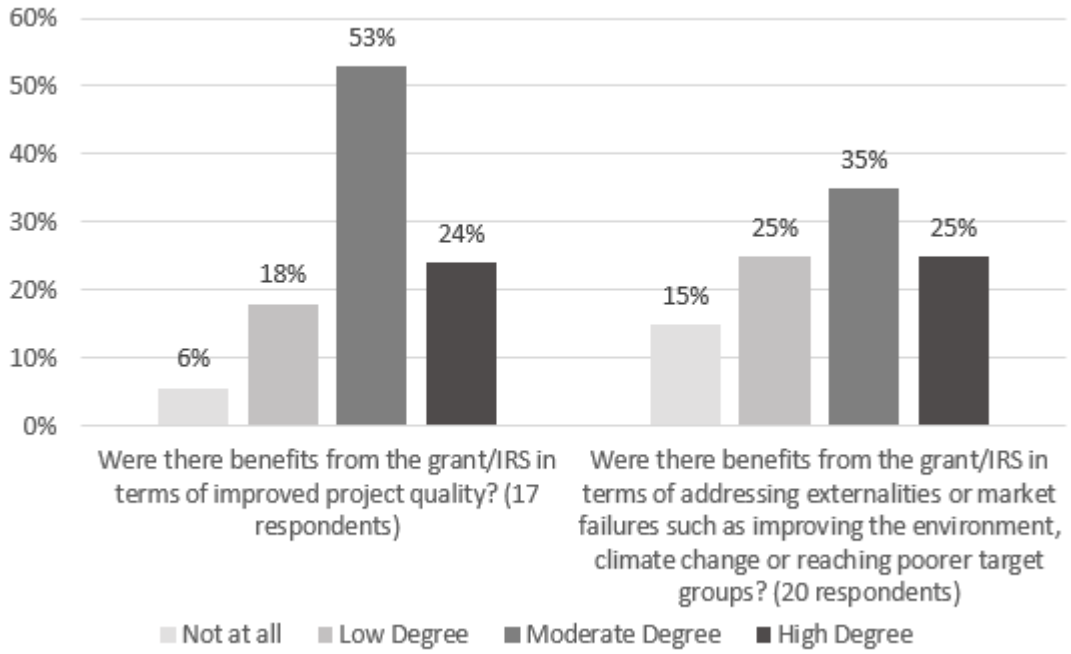
For the projects that supported the municipalities in Armenia on water and sanitation and waste management (WASH/SMWP/AM #33, WASH/KotaykSW/AM #13) the benefit of the grant has reportedly been passed on to the municipalities and users (in the form of lower tariffs) and not retained by the central authorities. The same is true for many of the financial sector projects (IND/SME Facility/REG #12) where it is noted that the total IRS benefit through the EIB window is passed on the SMEs in better borrowing conditions. It is noted in the contribution request that "*Credit enhancement support in the form of interest-free EU funded loan co-financing of up to 10%, to be used as a 0% interest-bearing portion of the loan by the EIB, to blend with its traditional loan to eligible SMEs. The benefit of the interest-free portion will be entirely passed through to the SME borrowers. This 90/10% blending of each eligible SME loan would provide concrete benefits to the eligible SMEs through lower interest payments and ease financial burden for investment in fixed assets, in line with the EU Acquis by SMEs particularly challenged by the current crisis.* (Source: EBRD contribution request for Eastern Partnership SME finance facility, June 2010). The field mission in Armenia also noted a case where the interest rate grant was passed on to the households that adopted energy efficiency equipment.

There were significant externalities in terms of climate change reduction of air pollution that arises from the construction of the El Zayt wind farm (ENER/Wind Farm/EG #32) which was co-

financed by an investment grant from NIF. The benefits are even greater if it is considered that the wind farm is likely to pave the way for future investment in wind energy. The projects where grants are provided for renewable energy, energy efficiency and water and sanitation which amount to over 50 percent of the blending portfolio all, inherently, provided environment benefits and often contributed to regional or even global public goods such as reduction of greenhouse gases or reduction of air or water pollution in shared airsheds and water sheds. A direct calculation has been made in the case of the project on waste management in Armenia but otherwise it is rather rare that documentation is provided on the benefits related to externalities.

In the survey of some 36 delegations, 67% of the 17 respondents that replied on this issue reported that the there was a high or moderate degree of investment grants/ IRS leading to improved project quality. A significant proportion (24%) reported that there was a low degree or no influence. Some 60% of 20 respondents reported that investment grants/IRS addressed externalities and/or market failure to high or moderate degree with a very significant proportion (40%) reporting that there was only a low degree or no benefits of this type from investment grants? IRS. (see figure 7)

Figure 7 - Survey response on the degree to which investment grants and IRS led to improved project quality and benefits related to addressing externalities or market failures.



The investment grants and interest rate subsidies were most often used to fulfil the IMF debt sustainability framework conditions rather than necessarily being directed at enhancing project quality beyond normal IFI standards or addressing externalities and/or market failures. Even where in countries such as Georgia or Armenia where the debt sustainability framework conditions were not obligatory, interviews with governments during the field visits revealed that in practice they often followed them or at least only accepted foreign debt with similar levels of concessionality.

The impact of the investment grants or interest rate subsidy was to make the loan easier to repay. In some cases this could have been a factor in enabling projects to fund otherwise marginal projects in more remote regions (e.g. small town water and waste water systems in Armenia). In Egypt, the investment grants for the El Zayt wind farm (ENER/Wind Farm/EG #32) enabled the

production of wind energy at cost levels close to the national levelised cost and thus encourage the grid operator to accept the intermittent wind energy from a relatively untested technology (at least in Egypt). In turn, once the concept was found viable on a large scale, wind energy is now being considered as an important national resource and the private sector has entered into contracts to develop large scale wind farms.

Although the use of the investment grant is not always specified in some cases, the investment grants are dedicated to a specific purpose. The field visits in Georgia identified a number of projects where the investment grants were dedicated to a specific purpose: In the Batumi Water project, an investment grant served to fund the water meters and formal connections to the water grid – both essential elements to ensure the viability of the project; for the Enguri hydro power plant, an investment grant served to finance the access road and resolve the silting up problem and; in the Black Sea Power transmission project the investment grant funded the 'detour' of the power line to reduce the crossing distance of the national park.

JC4.3 Guarantees and risk capital were used in situations where there was a clearly identified need for them.

I-4.3.1 A rational and justification for use of guarantees and risk capital is provided in the project documentation

Loan guarantees accounted for just under 6% of the total grant volume (Eur 99.4 million out of a total of Eur 1,724 million). Risk capital accounted for 4% of the total grant volume (Eur 70.2 million out of a total of Eur 1,724 million).

There have been comparatively few projects that have made use of the loan guarantee or risk capital instruments. Table 4.5 summarises information on the ten projects financed so far. All of the projects are regional or multi-country. Many of the projects are either linked to i) supporting lending to SMEs in the banking sector in the Neighbourhood region in response to the financial crisis or ii) supporting banks and financial institutions to lend to SMEs for renewable and energy efficiency projects.

Table 35 - Summary of projects which have used guarantees or risk capital instruments

Facility	Year	Project name	Lead IFI	Country	Sector	Instrument
ITF	2007	CLSG Interconnection Project	EIB	Regional	Energy	Combined (TA/IRS/Guarantees)
ITF	2012	Mauritius Container Terminal Extension	AFD	Regional	Transport	Combined (TA/Guarantee)
ITF	2012	Africa Sustainable Energy Facility (ASEF) (Cancelled)	EIB	Regional	Energy (finance)	Combined (TA/Guarantee)
NIF	2009	European Neighbourhood Fund window of the European Fund for South East Europe (BANK/EFSE/MC #36)	KfW	Regional	Banking and financial services	Risk capital
NIF	2011	MENA Fund for Micro-, Small and Medium Enterprises (SANAD)	KfW	Regional-	Banking and financial services	Risk capital
NIF	2013	Caucasus Sustainable Energy Finance Facility: Implementation Support	EBRD	Regional-	Banking and financial services	Risk capital
ITF	2011	Geothermal Risk Mitigation Facility for Eastern Africa (GRMF)	KfW	Regional-	Energy (finance)	Guarantees
IFCA	2012	IFCA contribution to the SME Finance Facility in Central Asia	EBRD	Regional	Industry (finance)	Combined (TA/Guarantee)
ITF	2010	Seychelles Submarine Cable Project (COM/SubCable/SC-TZ)	EIB	Regional-	Communication	Guarantees
NIF	2010	EBRD-13 SME Facility - EBRD / KfW window (IND/SME Facility/REG #12)	EBRD	Regional	Industry (finance)	Combined (TA/Guarantee)

Table 40 summarises the role of the loan guarantee and risk capital instruments for the two projects examined in detail.

Table 36 - Role of the loan guarantee and risk capital instrument in responding to the specific challenge for blending

PROJECT	OVERALL PROJECT OBJECTIVE	SPECIFIC CHALLENGE FOR BLENDING TO SOLVE [instrument]	Role of the loan guarantee/ risk capital instrument
SME Facility - EBRD / KfW window (IND/SME Facility/REG #12)	**To finance SMEs** (in risky economies)	**To lower the cost of borrowing for SMEs** (by passing on the grant element to the SMEs and encouraging the banks to view loaning to SMEs more favourably) – [TA/loan Guarantee]	Suitable There has been a significant lending to the SME sector with small loans and longer tenors e.g. in Georgia
ENBF window of EFSE (BANK/EFSE/ MC #36)	**To finance SMEs** (in risky economies)	**To mobilise private funding** (for the pool of money available for SMEs) – [risk capital]	Suitable By subscribing to first-loss C shares, blending funds attracted €400 million in private funding (A shares)

Across a wider review of the projects, the rational and justification for the use of the guarantees and risk capital falls that was commonly used can be summarised as:

- To reduce the perception of risk for lending to SMEs particularly in light of the financial crisis
- To encourage financial institutions to lend to SMES involved in energy efficiency projects
- To encourage private risk capital for lending to SMEs (through investing in shares that attract a first loss and protect private investors)

An example of the first reason is well illustrated by the long standing EFSE project ((BANK/EFSE/MC #36) where it is noted that the purpose of the guarantees being offered are to *" rebuild financial intermediaries' confidence to extend financing to SMEs, including micro-enterprises, following the financial crisis; enhance financial intermediaries' capacity to assess and monitor the related risks and manage their SME financing; strengthen and deepen the SME credit markets; expand financing options available to the real economy; promote continued development of market-based financial institutions and contribute to institution building; support expansion of private and entrepreneurial initiatives, working with local and international financial intermediaries."* (Source: KFW contribution request for Support for private sector development ENBF / EFSE, October 2009). Another example is the EBRD/KFW and EIB supported project (IND/SME Facility/REG #12) where a similar set of arguments are presented: "*the grant allowed the targeting of SMEs which are more risky... to unblock lending and get risk appetite and lending conditions to be more conducive." (*Source: EBRD contribution request for Eastern Partnership SME finance facility, June 2010). The cross border effects of supporting the provision of working capital for trade are also noted. The contribution request notes that: *"In the absence of the grant, the Finance Institutions would have very limited prospects to motivate financial intermediaries in EaP countries to start to increase their SME lending operations in the face of uncertain economic conditions and growing experience of non-performing loans to the SME segment. The grant component is necessary to give the financial intermediaries the confidence to commence lending at scale to this segment in the crisis recovery context."* In evidence of this it is further noted that "*This Credit Enhancement support will be used as a targeted instrument to restart SME lending in countries/regions of the EaP Countries where lending to SMEs has all but stopped due to heightened risk aversion of the PFIs resulting from the crisis".* This line of reasoning is plausible and can be tested. The documentation itself does not offer further evidence such as statistics on current and former lending. KFW has begun to assemble this type of evidence related to the long standing EFSE project which does support the contention that the financial crisis led to a sudden halt in lending to SMEs.

The line of argument for support SMEs in renewable and energy efficiency projects is similar with the additional argument that the banks are unfamiliar with these sectors and thus have higher perceptions of risk that need to be overcome by encouraging high quality lending that avoids obvious failures and demonstrates the viability of lending to this sector.

None of the contribution request documents or progress reports or reviews mentioned any potential downside of providing guarantees or risk capital. For small borrowers one of the disadvantages of loan guarantees that are combined with lines of credit is the currency risk. The borrower borrows in foreign currency but their income is in local currency. When there are large devaluations such as has recently occurred in Georgia, the borrower is heavily disadvantaged. Other concerns not addressed by the projects include:

- Financial additionality might be very low as the loans might have been given even without the guarantee
- Guarantees potentially shift risk from private firms who are usually better judges of risk to the public sector (tax payers) who are not as good judges of risk (thus driving scarce funds to second best projects)
- Information related distortions of risk assessment can easily be overestimated

- Externalities and social goods can also be easily overestimated
- With only some banks having access to loan guarantees there could be a market distortion - though this could be addressed by a guarantee fee
- Fundamental market failure may not be addressed by loan guarantees; for example the absence of adequate collateral to secure borrowing is often due to weak ownership title and inadequate property law
- Loan guarantees can lead to a perverse incentive for lending institutions and borrowers to become less prudent (the so-called 'moral hazard' – though this can be partly handled by guaranteeing only a portion of the loan)
- The real costs of loan guarantees are often very high due to extensive transaction costs.

I-4.3.2 Benefits from the use of a guarantees and risk capital are evident in terms of addressing market failures

The projects examined targeted SMEs and sectors such as agriculture and renewable and energy efficiency and deliberately excluded pure trading or property speculation. This tended to direct the benefits to the customers most in need and ensure a greater development impact.

As for grants and IRS, it is noted that combining guarantees with TA is highly beneficial. It is noted for example in the EBRD led project in the Neighbourhood region (IND/SME Facility/REG #12) that *" To mitigate the impact of the financial crisis on the risk appetite and lending conditions of financial intermediaries with respect to the SME sector and thereby unblock lending to the sector, targeted technical assistance for PFIs is seen as critical to introduce or reinforce lending methodologies and skills for the SME segment, including organisational restructuring where appropriate, introduce best-practice risk management procedures (including strengthening portfolio monitoring and corporate recovery tools in these PFIs), bring about improvements in automation and technology and introduction of tailored products to meet the needs of SMEs. These measures are seen as key to facilitate a restarting of SME lending in the EAP Countries and the sustainable development (both from institutional capacity and profitability perspective) of the supply of finance to the enterprises which form the back-bone of the economies of the EAP Countries."* In the annual progress report for 2014, evidence is provided that indicates that these effects have indeed taken place and examples are given of specific sub-actions in Ukraine, Moldova and two in Georgia. (Source: EBRD Annual progress report 2014, The Eastern Partnership SME financing Facility – March 2015)

The EFSE project (BANK/EFSE/MC #36) has been running since 2005 and has developed a track record of results which allow a more in-depth examination of the benefits. The benefits envisaged by the provision of risk capital through so called "C" shares include:

- The raising of additional finance on a 1 to 5 ratio i.e based on past and current performance the NIF contribution of Euro 10 million can be expected to raise Euro 50 million (of which close to 20% would be private finance and the remainder financed from development banks).
- Reaching small borrowers. Close to 600,000 loans have been issued since inception in 2005 (EUR 4.1 billion) whilst maintaining microloan focus below EUR 20,000 – average outstanding loan EUR 5500. During 2014 the agricultural sector received the largest share with roughly 31% of sub-loan amount disbursed.
- Increasing levels of approval and disbursements – end 2014 EUR 940million outstanding portfolio and 74 PLIs since its inception in December 2005.
- Growth increases and stable profile continues midst real sector and political risks in many EFSE countries.

(Source: KFW, Annual Narrative report 2014 EFSE SA SICAV-SIF, June 2015 and EFSE Semi Annual Meeting with EC 5 May 2015)

In Moldova, the field visit confirmed that the risk capital instrument was used in a situation where there was a clearly identified need for it. The IFI has chosen the SME FF versus other available SMEs credit lines because it was the most appropriated for BT leasing (a local financial intermediary) and its intention to expand its activities in the SME segment. The 1st loss cushion was highly appreciated by BT Leasing and contributed to its decision to enter the SMEs leasing segment (cf. EQ7). TA is also available under the SME FF, but it was not used during the period under evaluation, due to bad timing (management changes, and unfavorable market development (low business volume, etc).

The SME facility led by EBRD (IND/SME Facility/REG #12) reports significant benefits including reaching out to small borrowers where 66.1% of the sub-loans to end-borrowers are provided to micro and small enterprises , 9.7% to private clients for housing loans and 24.2% to rural customers.

One of the sub-actions supported, the Georgia Agricultural Finance Facility, incorporates TA and a first loss facility and has developed a track record of providing longer term loans to small borrowers thus bridging a failure in the market. The average loan tenor in 2014 was 2.8 years (an increase from 2.5 at the start of the year and well above the normal loan tenor for this sector in Georgia). Although the loan size is increasing there is still a relatively large proportion of loans below Euro 10,000 (22.5% in the last quarter of 2014 compared to 44% in the last quarter of 2013). The facility has also introduced value chain lending to the PFIs so that producers, processors, market traders' and exporters are all supported. So far the first loss claims have amounted to less than Euro 90,000 for a loan portfolio of Euro 40 million that to date has served over 15,000 farmers and SMEs. (Source: EBRD Annual progress report 2014, The Eastern Partnership SME financing Facility – March 2015).

The gender of borrowers is not noted or emphasised in the reporting although in many of the countries, gender is a key issue for improving access to finance.

5 EQ 5: Policy reforms

To what extent have blended projects contributed to leverage policy reforms in beneficiary countries?

Judgement Criteria	Indicators
5.1 Regulatory and institutional reforms have been implemented in the sectors supported by blended projects	1. Agreement by the authorities of relevant sector reforms 2. Effective implementation of relevant sector reforms
5.2 The policy dialogue that took place through blending has been a contributory factor in promoting sector reforms in beneficiary countries	1. Type and content of policy dialogue 2. Degree of alignment 3. Degree of coherence and coordination with other EU policy work 4. Linkages with observed policy changes 5. Importance of blending policy dialogue compared to other sources of influence in observed policy changes
5.3 The TA provided through blending has been a contributory factor in promoting sector reforms in beneficiary countries	1. Useful regulatory and institutional reforms studies through EU financed TA 2. Provision of TA to help developing the legal and regulatory framework 3. Linkages between advisory and/or capacity building activities and observed policy changes 4. Importance of advisory and/or capacity building compared to other sources of influence in observed policy changes

5.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

Methodological approach
1 Identification, for the relevant sectors, of the regulatory and institutional reforms that have been implemented: ▪ Identify publicly announced policy reforms (e.g. press statements) and major policy documents for the sectors targeted by blending projects ▪ Identify policy changes reported by interviewees for the sectors targeted by blending projects ▪ Identify the precise timing of policy changes, drawing on factual information in policy documents, records of Presidential/ Cabinet/ Parliamentary decisions and/or press statements
2 Assessment of the contribution of the policy dialogue generated through blending projects to the promotion of sector reforms in beneficiary countries: ▪ Assess, through interviews and documents, the type of dialogue held with the national authorities ▪ Examine, through interviews and documents, the extent to which donors/financial intermediaries involved in blending projects have spoken with one voice within the framework of the policy dialogue conducted with the national authorities ▪ Where both blending and sector budget support have been used for supporting the same sector: - Assess, through interviews and documents, whether the policy dialogue held through these two modalities was coordinated and/or coherent - Assess, through interviews and documents, the differences (if any) in the type of dialogue held through these two modalities - Assess, through interviews, whether one of two modalities was more effective in leveraging reforms ▪ Examine whether there are linkages between blending policy dialogue and observed policy changes ▪ Identify the other contributing factors to observed policy changes ▪ Determine the relative importance of blending policy dialogue in explaining observed policy changes
3 Assessment of the contribution of TA to the significant policy changes to the promotion of sector reforms in beneficiary countries: ▪ Review the feasibility studies financed through EU financed TA and assess whether they addressed key sector performance issues ▪ Assess, through interviews and documents, whether TA helped developing the legal and regulatory framework of beneficiary countries ▪ Examine whether there are linkages between blending TA and observed policy changes ▪ Identify the other contributing factors to observed policy changes ▪ Determine the relative importance of blending TA in explaining observed policy changes

Rationale for the EQ:

In facilitating better and/or larger investment projects in support of both EU and partner countries policy goals (e.g. debt sustainability, environmental protection, financial stability, etc.), blending is expected to exert leverage on the policy reforms initiated by partner countries. This question assesses the extent to which blending has enabled donors (EU and Member States) to have a wider effect on the policy environment of recipient countries, with a specific focus on sector reforms.

The question focuses on partner countries that benefited from blended projects aiming at promoting sector policy reforms, either through the policy-level discussions held with blended

projects or through the wider EU policy dialogue accompanied by blended projects, or through technical assistance (TA). Out of our sample of projects selected for the desk study, 12 blended projects aimed to support policy reform processes. These reforms concern three major sectors: energy (in particular electricity) in Egypt, Ukraine and West Africa; transport (in particular public transport and the road sub-sector) in Armenia, Moldova and Namibia; and water and sanitation in Egypt, Colombia, and Morocco.

Detailed sample of projects

Project #	Project abbreviation	Title	Facility	Lead IFI	Country	Year	Total amount from EU budget M€	Status	Sector	Type of support
2	ENER/WAPP/REG	Update of the WAPP Masterplan	ITF	EIB	Western Africa	2009	1 306 624	Closed	ENERGY GENERATION AND SUPPLY	TA
3	ENER/ERERA/REG	ECOWAS Electricity Regulation (ERERA)	ITF	AFD	Western Africa	2008	1 700 000	Closed	ENERGY GENERATION AND SUPPLY	TA
5	TRANS/MasterPlan/NA-REG	Namibian Transport Master Plan	ITF	EIB	Namibia, South Africa, Botswana, Angola, Congo, the Democratic Republic of the, Zambia, Zimbabwe	2010	494 901	Closed	TRANSPORT AND STORAGE	TA
8	ENER/Ukrenergo/UA	EBRD-03 Ukrenergo Corporate Sustainable Development	NIF	EBRD	Ukraine	2009	786137,32	Closed	ENERGY GENERATION AND SUPPLY	TA
9	TRANS/MetroRehab/AM	AM-01 Yerevan Metro Rehabilitation	NIF	EBRD	Armenia	2010	5 000 000	Closed	TRANSPORT AND STORAGE	Grant
10	TRANS/PublicTrans/MD	MD- 03 Chisinau Public Transport Project	NIF	EBRD	Moldova	2010	3 000 000	Closed	TRANSPORT AND STORAGE	Grant
14	WASH/IWSP/EG	EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	NIF	KfW	Egypt, Arab Rep.	2008	5000000	Ongoing	WATER AND SANITATION	Grant
20	WASH/IWRM/CO	“Support to the Integrated Water Resources Management (IWRM) in Colombia”	LAIF	AFD	Colombia	2013	4 650 000	Ongoing	WATER AND SANITATION	TA
29	TRANS/RoadRehab/MD	MD-02 Moldova Road Rehabilitation project	NIF	EBRD	Moldova	2008	12 000 000	Ongoing	TRANSPORT AND STORAGE	Grant
30	WASH/PNA-ONEP/MA	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I	NIF	AFD	Morocco	2010	10 000 000	Ongoing	WATER AND SANITATION	TA/Grant
31	ENER/PowerTrans/EG	EG-03 Egyptian Power Transmission	NIF	EIB	Egypt, Arab Rep.	2010	16 000 000	Ongoing	ENERGY GENERATION AND SUPPLY	TA/Grant
32	ENER/Wind Farm/EG	EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	NIF	KfW	Egypt, Arab Rep.	2008	10 000 000	Ongoing	ENERGY GENERATION AND SUPPLY	Grant

5.2 Evaluation question

Summary

- The public policy context was conducive to sector reforms, with beneficiary countries undergoing significant sector reforms in the energy, transport, water and sanitation sectors since the 1990s. Despite improvements in the legal and regulatory framework of beneficiary countries over time, these sectors often continue to be plagued by high levels of financial insolvency and operating inefficiencies.
- Blended projects did not trigger those reform processes but often usefully accompanied them through some policy-level discussions and most often through TA/advisory services:
- *Policy dialogue:*
  - Policy-related discussions focusing on key reform issues sometimes took place either prior to project approval or during project implementation but were not the factor that triggered the adoption/implementation of sector reforms.
  - In the Mediterranean area, the coordinated use of both blending and budget support proved a powerful factor of change. In the other countries/regions, synergies at EU portfolio level generally did not materialise.
  - Blending rather complemented other policy-related support to sector reforms (e.g. domestic policy decisions, other fora for dialogue, other projects, etc.) in enabling investment in physical large-scale projects.

  Technical assistance:
  - Blended projects often provided TA/institutional strengthening to underpin the regulatory and institutional reforms of the beneficiary countries and/or to improve the capacity and efficiency of national/regional authorities or to restructure utility companies.
  - The TA provided often led to improvements in the legal and regulatory framework of the beneficiary countries or in the management of the sector. But reform processes were generally lengthy and political upheaval lead to long delays and poor implementation of reforms.
  - Advisory/capacity building activities often accompanied sector policy reforms in the beneficiary countries but were not the main contributing factor to policy development.

The public policy environment in the countries having benefited from blending operations was conducive to sector reforms. Several beneficiary countries underwent significant sector reforms in the energy, transport and water sectors since the 1990s. Reforms aimed at restructuring the sectors to underpin the socio-economic development of the countries/regions. In energy (Egypt, Ukraine and West Africa), they injected competition into the power markets, led to increased investments in previously neglected systems, and encouraged regional cooperation. In public urban transport (Armenia, Moldova, Namibia), they aimed to improve the safety, quality and availability of services. In water and sanitation (Egypt, Morocco, Colombia), they aimed to increase the efficiency of management of water and sanitation public services. These reforms, initiated by the partner countries, were also anchored into EU bilateral cooperation agreements and supported by other agencies such as the World Bank. Though lengthy due to institutional and political bottlenecks, they led to improvements in the legal and regulatory framework of beneficiary countries over time. But a range of challenges still remains, the energy, transport and water sectors continuing to be plagued by high levels of financial insolvency and operating inefficiencies.

Blended projects did not trigger those reform processes but often usefully accompanied them, through some policy-level discussions focusing on key reform issues and most often through TA/advisory services helping the development of the legal and regulatory framework of beneficiary countries.

Policy dialogue

Policy dialogue has not been a major focus of blended projects, which rather focused on physical investments. Blended projects generally did not factor into their design explicit policy-related activities (e.g. policy dialogue on specific topics linked to the reform agendas of the beneficiary countries). Some policy-related discussions focusing on key reform issues, and in particular on tariffs, took place either prior to project approval or during project implementation in less than half of the projects reviewed.

While synergies at the level of the EU portfolio between blending and other EU policy-related have not often materialised, a rather good coherence and coordination work was noted in the Mediterranean area. Where both blending and EU BS were used in the same sector (Egypt, Colombia, Morocco), synergies were noted in the Mediterranean area. Blended projects supporting the energy and water sectors in Egypt and the sanitation sector in Morocco were part of a wider EU comprehensive package of support to sector reforms, including high-level policy dialogue within the framework of the Neighbourhood Association Agreement, technical assistance and advisory services to underpin the sector reforms, and EU budget support programmes. In both Egypt and Morocco, blending accompanied the materialization of public policy reforms supported by BS in allowing large-scale investments in sanitation infrastructure and in renewable energy.

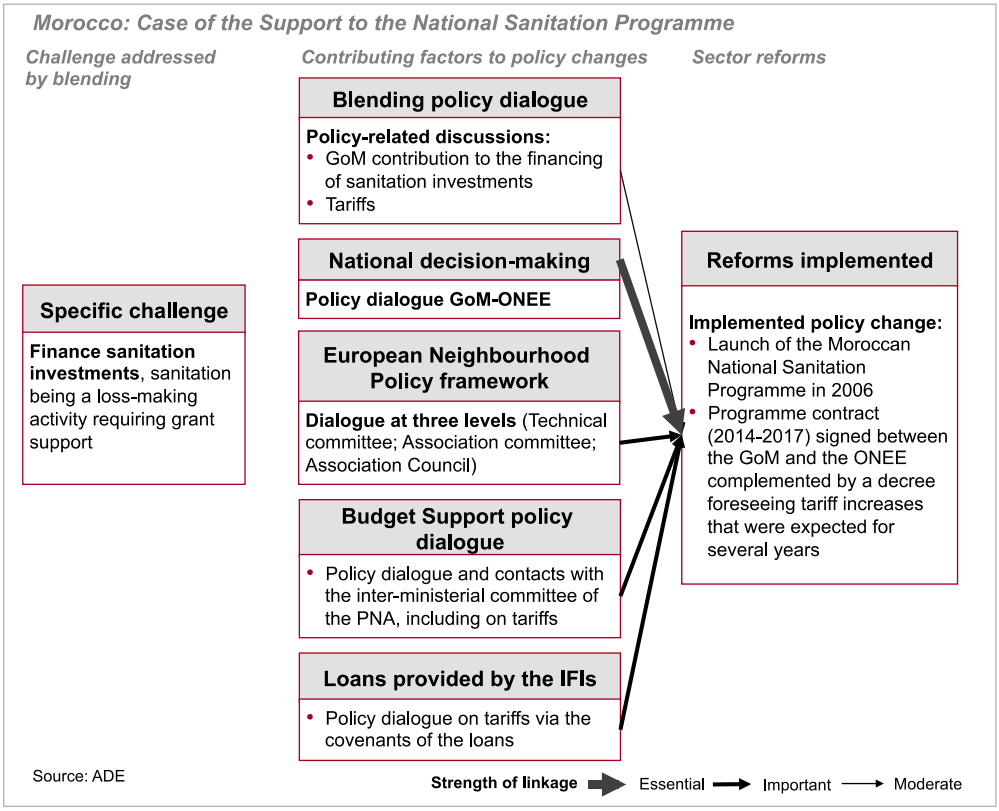
Blending often accompanied sector policy reforms in the beneficiary countries but was not the main contributing factor. Policy discussions held within the framework of blended projects were not triggers leading to the adoption or the implementation of specific sector reforms. They rather complemented other policy-related support to sector reforms: e.g. high-level and technical policy dialogue with the government (e.g. within the structures for dialogue foreseen by the AA - dialogue at ministerial level dialogue within the Association Council and technical discussions within the sub-committees-) and the reform agenda of the Government promoted through EU budget support or WB supported reform programmes. Besides, the investment in physical projects represented a useful complement to the EU budget support reform agenda (energy in Egypt - ENER/PowerTrans/EG #31, ENER/Wind Farm/EG #32 - and sanitation in Egypt - WASH/IWSP/EG #14- and in Morocco - WASH/PNA-ONEP/MA #30), or to the WB-led reform agenda (transport in Moldova - TRANS/RoadRehab/MD #29). This is also confirmed by the results of the survey to EUDs: 65% of the respondents indicated that other sources of influence than blending promoted policy reforms. The figure below provides as an illustration a schematic representation of the contribution of blending policy dialogue as well as other contributory factors to sanitation reforms in Morocco (WASH/PNA-ONEP/MA #30).

Technical assistance

Blended projects often provided TA/institutional strengthening to underpin regulatory and institutional reforms in the beneficiary countries. Blending TA often led to the production of feasibility studies presenting a detailed sector-level assessment (WASH/IWSS/MD #11) or supported the preparation of Master Plans (ENER/WAPP/REG #2, TRANS/MasterPlan/NA-REG #5) or aimed to reinforce the capacity and efficiency of national/regional authorities or to restructure utility companies. This TA often focused on key (aspects of the) policy priorities of the beneficiary countries. For instance Projects ENER/Ukrenergo/UA #8 in Ukraine, WASH/IWSP/EG #14 in Egypt and ENER/ERERA/REG #3 in West Africa focused on improving the efficiency of the energy sector, which was one of the key sector challenges.

The TA provided often led to improvements in the legal and regulatory framework of the beneficiary countries or in the management of the sector. But reform processes were generally lengthy and political upheaval lead to long delays and poor implementation of reforms. ENER/Ukrenergo/UA #8 registered significant progress on the institutional front but the implementation of the corporatization process of Ukrenergo was lagging behind due to the conflict situation in Ukraine. For TRANS/PublicTrans/MD #10, activities linked to the restructuring of the Chisinau Trolleybuses Company have advanced well with a Public Service Contract leading to a robust management being in place since January 2012. As far as the technical cooperation is concerned, significant delays were encountered in the procurement process; the adoption of the transport strategy was lengthy but was finally completed mid-2015. TRANS/MetroRehab/AM #9 is a success story with the majority of the benchmarks of the technical cooperation being achieved, including in particular the signature of a Public Service Contract (PSC) between Yerevan City and Yerevan Metro Company setting out the parties' rights, responsibilities and financial obligations, including subsidies and maintenance support.

Advisory/capacity building activities often accompanied sector policy reforms in the beneficiary countries but were not the main contributing factor to policy development. They generally complemented a wider package of support to reforms. For countries of the Mediterranean and the East European EU neighbours, this package is linked to the implementation of the EU bilateral agreements (Partnership and Cooperation Agreements (PCAs), Association Agreements (AAs)) and to sector reform programmes within which the World Bank is heavily involved. In West Africa, Namibia and Colombia, blended projects did not trigger policy reforms as such but focused on specific policy-related issues part of the wider reform agenda: the update of the West African Power Pool (WAPP) master plan (ENER/WAPP/REG #2) or of the Namibian Transport Master Plan (TRANS/MasterPlan/NA-REG #5), or support to ERERA in the conduct of regulatory activities (ENER/ERERA/REG #3); support to a pilot project in Lake Tota (Colombia) so as to start the implementation of water resources management policies (IWRM) at local level (WASH/IWRM/CO #20).



5.3 Judgement Criteria

JC 5.1 Regulatory and institutional reforms have been implemented in the sectors supported by blended projects

Summary JC 5.1 Regulatory and institutional reforms have been implemented in the sectors supported by blended projects

- The policy environment was conducive to sector reforms with beneficiary countries undergoing significant sector reforms in the energy, transport and water sectors since the 1990s.
- These reforms processes, initiated by the partner countries, were anchored into the EU bilateral cooperation agreements for Southern Mediterranean and Eastern European countries and often complemented with efforts of other agencies such as the World Bank.
- These reforms processes were lengthy, notably due to institutional and political bottlenecks.
- Despite improvements in the legal and regulatory framework of beneficiary countries over time, the energy, transport and water sectors continue to be plagued by high levels of financial insolvency and operating inefficiencies.

The policy environment was conducive to sector reforms with beneficiary countries undergoing significant sector reforms in the energy, transport and water sectors since the 1990s (I-5.1.1 & I-5.1.2). Reforms aimed at restructuring the energy, transport and water sectors to underpin the socio-economic development of the countries/regions.

Reforms in the energy sector (Egypt, Ukraine and West Africa) injected competition into the power markets, led to increased investments in previously neglected systems, and encouraged regional cooperation. Efforts have been made to establish pricing and tariff regimes that permit a more reasonable return on investment. Regulatory bodies to address this core issue have progressively been established (e.g. the National Electricity Regulatory Commission (NERC) in Ukraine). West Africa shows a rather diverse picture across countries, with countries such as Ghana and Nigeria being more advanced in adopting the key features of the unbundled system.

Reforms in public urban transport aimed at improving the safety, quality and availability of services. Reforms in the road sector aimed at increasing the efficiency of the sector, through focus on road taxation, road funding -including for maintenance- and on institutional arrangements. In Armenia, the Government has substantially transformed transport sector management since independence from being wholly a public sector responsibility to a largely privatized operation. In Moldova, successive transport strategies were adopted and implemented with good progress. In Namibia, the Road sector reform (2000) resulted in the creation of three state owned enterprises (the Road Fund Administration, the Roads Authority and the Roads Contractor Company).

Reforms in the water sector (Egypt, Morocco, and Colombia) aimed to improve the efficiency of management of water and sanitation public services. In Egypt, a move towards a comprehensive reform process was initiated in 2004 with the issuance of presidential decrees to form the Holding Company for Water and Wastewater (HCWW), to establish affiliated companies of the new HCWW, and to create the Egyptian Water Regulatory Agency (EWRA). In Colombia, progress in the implementation of the Integrated Water Resources Management (IWRM) policy has been rather slow since 2010. The lack of financial resources to invest and of human resources constitute major impediments to meet the objectives set in the IWRM. In Morocco, progress is observed in the implementation of the 'Plan national d'assainissement (PNA)', which is a key component of the 2009 National Water Strategy.

Sources of information: EUD and IFI Country level strategies, Project identification documents, Project application forms, Feasibility studies, Project monitoring and evaluation reports; Laws passed in the countries; Press statements, Sector reforms adopted by the countries; Interviews with EU staff and national partners.
Quality of evidence: Strong.

These reforms processes, initiated by the partner countries, were anchored into the EU bilateral cooperation agreements for Southern Mediterranean and Eastern European countries and often complemented with efforts of other agencies such as the World Bank. Southern Mediterranean and Eastern European countries are engaged into a continuous process of approximation and harmonisation with EU standards with the signature of PCAs, AAs or Advanced Status for Morocco. The sector strategies adopted by these countries supported the ongoing process of harmonizing the country's energy/transport/water/ systems with the EU standards, legislation and related regulations. In addition, transport sector reforms in Armenia and Moldova were heavily supported with assistance from the World Bank.

Sources of information: EUD and IFI Country Level Strategies, Project identification documents, Project application forms, Feasibility studies, Project monitoring and evaluation reports; Laws passed in the countries; Sector reforms adopted by the countries; Interviews with EU staff and national partners.
Quality of evidence: Strong.

These reforms processes were lengthy, notably due to institutional and political bottlenecks. For instance, the new electricity law to liberalize Egypt's electricity market, which was under preparation in 2010, was only adopted in July 2015. In Namibia, the full restructuration of the road sector started in 1995; it led to the adoption of the Road sector reform in 2000. The principles of Integrated Water Resources Management (IWRM) are included in the regulation text since 1993 but the legislation was only approved by all water stakeholders and by the Colombian Government in 2010.

Sources of information: EUD and IFI Country Level Strategies, Project identification documents, Project application forms, Feasibility studies, Project monitoring and evaluation reports; Laws passed in the countries; Press Statements; Sector reforms adopted by the countries; Interviews with EU staff and national partners.
Quality of evidence: More than satisfactory.

Despite improvements in the legal and regulatory framework of beneficiary countries over time, the energy, transport and water sectors continue to be plagued by high levels of financial insolvency and operating inefficiencies. For instance, in Armenia, a number of challenges are still prevailing in the urban public transport sector, such as limited municipal capacity to plan, monitor and operate urban transport; inappropriate public transport relying mainly on old bus fleets and unregulated minibuses, low levels of transport fares, etc. Fundamental problems are also afflicting the power sector in West Africa: a lack of cost-reflective tariffs, with most countries having parastatal vertically integrated electricity utilities ultimately responsible to the federal government, which lead to low levels of investments, quality and service; the lack of significant cross-border infrastructure; and a challenging fuel supply outlook for thermal plants in countries depending on Nigerian natural gas.

Sources of information: EUD and IFI Country Level Strategies, Project identification documents, Project application forms, Feasibility studies, Project monitoring and evaluation reports; Laws passed in the countries; Press Statements; Sector reforms adopted by the countries; Interviews with EU staff and national partners.

Quality of evidence: More than satisfactory.

JC 5.2 Extent to which the policy dialogue that took place through blending has been a contributory factor in promoting sector reforms in beneficiary countries

Summary JC 5.2 Extent to which the policy dialogue that took place through blending has been a contributory factor in promoting sector reforms in beneficiary countries

- While blended projects generally did not factor into their design explicit policy-related activities or objectives, some policy-related discussions focusing on key reform issues sometimes took place either prior to project approval or during project implementation
- There was a good coherence and coordination where both blending and other EU policy-related work were used to support the same sector in the Mediterranean area. Otherwise synergies did not materialise
- Blending often accompanied sector policy reforms in the beneficiary countries but was not the main contributing factor

While blended projects generally did not factor into their design explicit policy-related activities or objectives, some policy-related discussions focusing on key reform issues sometimes took place either prior to project approval or during project implementation (I-5.2.1). Blended projects focused on physical investments; they generally did not explicitly envisage at design stage the conduct of policy dialogue on specific topics linked to the reform agendas of the beneficiary countries[47]. Some policy-related discussions took place in less than half of the reviewed cases, either prior to project approval or during implementation. They often focused on key issues of the sector reform programmes of beneficiary countries, and in particular on tariff issues (e.g. Projects TRANS/PublicTrans/MD #10, ENER/Wind Farm/EG #32). For instance, for Project #10 the EBRD banking team agreed with the City on a fare reform plan that required an increase in tariffs prior to the project. For TRANS/RoadRehab/MD #29, policy-level dialogue -led by the World Bank, with the participation of other IFIs- was performed on a regular basis to accompany the implementation of the Moldovan road sector reforms programme. This project also illustrates a high degree of alignment of the voices of IFIs involved, both at design and implementation stages (I.5.2.2).

Sources of information Project application forms, project monitoring and progress reports; Interviews with IFIs, EUD and national partners.
Quality of evidence: Strong.

There has been a rather good coherence and coordination between blending and other EU policy-related work in the Mediterranean area. Otherwise synergies did not materialise (I-5.2.3). Both blending and other EU policy-related work (and in particular budget support operations) were used to support the same sector in three of the ten countries visited (Colombia, Egypt, Morocco). Synergies materialised in the Mediterranean area. Blended projects supporting the energy and water sectors in Egypt and the sanitation sector in Morocco were part of a wider EU comprehensive package of support to sector reforms, including high-level policy dialogue within the framework of the Neighbourhood Association Agreement, technical assistance and advisory services to underpin the sector reforms, and EU budget support programmes. Blending accompanied the materialization of public policy reforms supported by BS in allowing large-scale investments in sanitation infrastructure and in renewable energy. In Morocco, linkages were

[47] ENER/Ukrenergo/UA #8 is an exception: it was expected that the TA provided would offer the EBRD a platform to engage in a policy dialogue with the Ukrainian authorities and the National Electricity Regulatory Commission on tariff reform in the transmission sector.

established between the NIF and budget support operations to sanitation: the NIF enabled to support the operator (ONEE) while higher-level policy dialogue and contacts with the inter-ministerial committee of the PNA took place within the framework of BS. With BS being finalised since 2013, the ongoing design of the NIF PNA-ONEE phase II foresees an institutional component to ensure the continuity of the discussions launched with BS. Moreover, the NIF PNA-ONEE Phase I and the PAI1 complemented each other in financing various centres of the PNA. In Egypt, BS and blended projects were used as complementary channels to support sector reforms in the energy and water sectors. On the one hand, blending helped EU policy dialogue and BS efforts and, on the other hand, the EUD helped the blending projects to work better with the policy dialogue held through BS programmes. Conversely, in Colombia, there has been no linkage between the IWRM project (WASH/IWRM/CO #20) and relevant EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia.

Sources of information Project application forms, Country level strategies; Interviews with IFIs, EUD and national partners.
Quality of evidence: More than satisfactory.

Blending often accompanied sector policy reforms in the beneficiary countries but was not the main contributing factor (I-5.2.4 & I-5.2.5). Policy discussions held within the framework of blended projects were not triggers leading to the adoption or the implementation of specific sector reforms. They rather complemented other policy-related support to sector reforms: e.g. high-level and technical policy dialogue with the government (e.g. within the structures for dialogue foreseen by the AA -dialogue at ministerial level dialogue within the Association Council and technical discussions within the sub-committees-) and reform agenda of the Government promoted through EU budget support or WB supported reform programmes. Besides, the investment in physical projects represented a useful complement to the EU budget support reform agenda (energy in Egypt - ENER/PowerTrans/EG #31 and ENER/Wind Farm/EG #32- and sanitation in Egypt - WASH/IWSP/EG #14- and in Morocco - WASH/PNA-ONEP/MA #30), or to the WB-led reform agenda (transport in Moldova - TRANS/RoadRehab/MD #29). This is also confirmed by the results of the survey to EUDs: 65% of the respondents indicated that other sources of influence than blending promoted policy reforms.

Sources of information: Project application forms, project monitoring and progress reports; interviews with IFIs, EUDs and national partners.
Quality of evidence: More than satisfactory.

JC 5.3 Extent to which the TA provided through blending has been a contributory factor in promoting sector reforms in beneficiary countries

Summary for JC 5.3 5.3 Extent to which the TA provided through blending has been a contributory factor in promoting sector reforms in beneficiary countries

- The studies realized with the TA provided through blending often underpinned regulatory and institutional reforms
- Blended projects often provided TA/institutional strengthening to support the development of the legal and regulatory framework of beneficiary countries and/or to improve the capacity and efficiency of national/regional authorities or restructure utility companies
- The TA provided often led to improvements in the legal and regulatory framework of the beneficiary countries or in the management of the sector. But reform processes were generally lengthy and political upheaval lead to long delays and poor implementation of reforms
- Advisory/capacity building activities often accompanied sector policy reforms in the beneficiary countries but were not the main contributing factor to policy development

The studies realized with the TA provided through blending often underpinned regulatory and institutional reforms (I-5.3.1). Blending TA often led to the production of feasibility studies presenting a detailed sector-level assessment (WASH/IWSS/MD #11), or of studies assessing the current situation of the identified beneficiary company (ENER/Ukrenergo/UA #8), or supported the preparation of Master Plans, including a list of priority investment projects to be financed (ENER/WAPP/REG #2, TRANS/MasterPlan/NA-REG #5).

Sources of information: Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners.
Quality of evidence: Strong.

Blended projects often provided TA/institutional strengthening to support the development of the legal and regulatory framework of beneficiary countries and/or to improve the capacity and efficiency of national/regional authorities or restructure utility companies (I-5.3.2). This TA was either at the core of the blended project or provided through a specific component of the blended project focusing on institutional strengthening, or provided as complementary support (i.e. through the EBRD Technical Cooperation Funds Programme for two EBRD-led projects). This TA often focused on key (aspects of the) policy priorities of the beneficiary countries. For instance projects ENER/Ukrenergo/UA #8 in Ukraine, WASH/IWSP/EG #14 in Egypt and ENER/ERERA/REG #3 in West Africa focused on improving the efficiency of the energy sector, which was one of the key sector challenges.

Sources of information: Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners.
Quality of evidence: Strong.

The TA provided often led to improvements in the legal and regulatory framework of the beneficiary countries or in the management of the sector. But reform processes were generally lengthy and political upheaval lead to long delays and poor implementation of reforms (I-5.3.3). ENER/Ukrenergo/UA #8 registered significant progress on the institutional front but the implementation of the corporatization process of Ukrenergo was lagging behind due to the conflict situation in Ukraine. For TRANS/PublicTrans/MD #10, activities linked to the restructuring of the Chisinau Trolleybuses Company have advanced well with a Public Service Contract leading to a robust management being in place since January 2012. As far as the technical cooperation is concerned, significant delays were encountered in the procurement process; the adoption of the transport strategy was lengthy but was finally completed mid-2015. TRANS/MetroRehab/AM #9 is a success story with the majority of the benchmarks of the technical cooperation being achieved, including in particular the signature of a Public Service Contract (PSC) between Yerevan City and Yerevan Metro Company setting out the parties' rights, responsibilities and financial obligations, including subsidies and maintenance support.

Sources of information: Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners; Sector strategies
Quality of evidence: More than satisfactory.

Advisory/capacity building activities often accompanied sector policy reforms in the beneficiary countries but were not the main contributing factor to policy development (I-5.3.4 & I-5.3.5). They generally complemented a wider package of support to reforms. For countries of the Mediterranean and the East European EU neighbours, this package is linked to the implementation of the EU bilateral agreements (Partnership and Cooperation Agreements (PCAs), Association Agreements (AAs)) and to sector reform programmes within which the World Bank is heavily involved. For instance, for ENER/Ukrenergo/UA #8, the support was provided in a wider context where Ukraine is following a roadmap to progressively integrate its energy

(electricity and gas) market with that of the EU (EU-UA ENP Action Plan, EU-UA AA). Besides, the WB supported during 2007-2014 the implementation of the Ukrainian Energy Sector Reform and Development Program, particularly through investment lending. In West Africa, Namibia and Colombia, blended projects did not trigger policy reforms as such but focused on specific policy-related issues part of the wider reform agenda: the update of the West African Power Pool (WAPP) master plan (ENER/WAPP/REG #2) or of the Namibian Transport Master Plan (TRANS/MasterPlan/NA-REG #5), or support to ERERA in the conduct of regulatory activities (ENER/ERERA/REG #3); support to a pilot project in Lake Tota (Colombia) so as to start the implementation of water resources management policies (IWRM) at local level (WASH/IWRM/CO #20).

Sources of information: Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners; Sector strategies
Quality of evidence: More than satisfactory.

Summary of the Data Collection Process for Evaluation Question 5

Judgement criteria information availability (go to indicator level if needed)	
JC 5.1	4
JC 5.2	4
JC 5.3	4
1= low – 5 = high	

Hypotheses to be tested in the field	**Evidence**
▪ Blending usefully complemented other EU policy-related work.	This is partly confirmed. Both blending and other EU policy-related work (and in particular budget support operations) were used to support the same sector in three of the ten countries visited (Colombia, Egypt, Morocco). In the Mediterranean area, blending usefully accompanied the sector reforms promoted by budget support in facilitating large-scale investments. The combination of both proved being an interesting factor of change. No specific linkages could be observed in Colombia. Note: Both blending and BS were also used in Mozambique but the operations have not focused on the same sectors (blending focused on transport (rail and port) and water while the SPSPs which were operated as a species of SBS focused on the road, health and agriculture sectors.
▪ Blending and Budget Support (BS) together are a more powerful factor of change than either alone	This is not confirmed. In some of the countries visited where budget support was not used (West Africa, Kenya), blending could still usefully facilitate public policy implementation.

5.4 Indicator analysis

JC 5.1 Regulatory and institutional reforms have been implemented in the sectors supported by blended projects

Note: this JC does not focus on what blending actually achieved concerning sector reforms. It focuses on the reforms implemented in the various sectors/countries supported by blended projects which aimed at enhancing sector reforms. It gives background information that lays the foundation for the qualitative review of the effects of blending (policy dialogue and TA) that is undertaken in the subsequent two JCs.

I-5.1.1 & I-5.1.2 Agreement/approval by the authorities of the beneficiary countries of relevant sector reforms & Effective implementation (including timing) of relevant sector reforms in the beneficiary countries

Reforms in the energy (electricity) sector:

Egypt:
Egyptian government policies aim primarily at securing sufficient and affordable electricity supply to underpin the country's socio-economic development. After a long period without any tariff increase (1992-2004), the Government began to implement in 2004 a tariff adjustment programme. Government plans to further liberalise the electricity sector aim at reinforcing the role of the Regulatory Agency, establishing a transmission system operator and (re-)opening the market to private sector participation in generation and distribution. Importantly, the reform program also gradually aims to reduce and finally eliminate subsidies for electricity consumption and use of hydrocarbons in power generation. A new electricity law to liberalize Egypt's electricity market - which was under preparation in 2010- was adopted in July 2015. Institutionally, the Egyptian Electricity Holding Company (EEHC) was established in 2000 to replace EEA by Law no. 164. The Egyptian Electric Utility and Consumer Protection Agency was established by Presidential Decree 399/2000. The New and Renewable Energy Authority (NREA) is responsible for the operation and management of publicly financed wind farms. (Sources: Feasibility Study, 2008 for ENER/Wind Farm/EG #32; EIB project fiche, 2010 for ENER/PowerTrans/EG #31; http://www.atlanticcouncil.org; GoE, Final version of the Draft New Electricity Law, 2015).

Ukraine:
Energy sector reform started with the restructuring and corporatization in the oil, gas, and power sub-sectors in 1994. As a result of its reform effort, Ukraine unbundled its power industry, introduced elements of competition on the wholesale electricity market (WEM) and the coal market, and liberalized the oil market. The National Electricity Regulatory Commission (NERC) was established. The WB notes in 2014 that 'these early reforms after Ukraine's independence focused on increasing competition and fell far short of improving efficiency in the power sector. Despite positive developments in power system reforms during the 2000's, the sector continues to be plagued by high levels of financial insolvency and operating inefficiencies, and still faces significant challenges'. It further notes that 'NERC does not have enough budgetary, financial, and administrative independence to perform its duties in an efficient manner'. (Source: WB, PID for the Second Power Transmission Project, 2014).

Ukraine adopted an Action Plan for Energy Sector Reform and Development in 2007, which is based on a conceptual plan for harmonization of Ukraine's energy sector with the EU Internal Energy Market. (Source: WB, PID for the Power Transmission Project in Support of the Energy Sector Reform and Development Program, 2007). The main objectives of energy sector reforms are to: provide investments for energy infrastructure; improve the safety and reliability of the power supply; contribute to the uninterrupted operation of the Ukrainian energy market; and support

Ukraine in its legislative, institutional, and technical harmonization of the energy sector with the European Union's (EU) Internal Energy Market. After having observer status since November 2006, Ukraine officially became a member of the Energy Community Treaty (ECT) in September 2010 with the signing of the protocol that defined the implementation schedule of the 'acquis communautaire'. It implies a number of requirements, including adaptation of Ukraine's legislation to EU Directives, unbundling of energy assets, and provision of third-party access to the network, etc. Detailed actionable steps for implementation of the strategy are provided in a separate action plan developed and introduced in March 2012, and updated annually. The Energy Strategy recently went through a complete revision and was finalized in July 2013. The focus has mainly been on changing the legislative framework in the sector. A cornerstone of this reform is the implementation of a new model of WEM, and continuation of reforms following ECT requirements. The Electricity Market Law enacted by the Ukrainian Parliament in October 2013 was designed to further liberalize markets. (Source: http://voxukraine.org)

West Africa:
La politique énergétique régionale a été adoptée en mai 1982 pour accroître l'autonomie énergétique de la région. Les chefs d'Etat de la CEDEAO ont ensuite adopté en 1999 une décision mettant en place le Système d'Echanges d'Energie Electrique Ouest Africain (The West African Power Pool (WAPP)) qui est destiné à faire face au déficit d'électricité dans la région par la réalisation d'interconnexions électriques et le développement d'échanges d'électricité entre les Etats Membres de la CEDEAO. (Source: AFD Convention de financement ARREC, 2010 – ENER/ERERA/REG #3). In July 2006, the "WAPP Organization" was formally inaugurated as an all-inclusive organization of (public and private) electric power utilities based in ECOWAS member states. The WAPP has been helping countries in the ECOWAS region to develop regional priority projects. These priority projects are identified through a regional Masterplan, which is regularly updated, and subsequently endorsed in WAPP fora. (Source: WB, PID for the WAPP, 2012).

Fundamental problems are afflicting the power sector in West Africa. These problems include a lack of cost-reflective tariffs, with most countries having parastatal vertically integrated electricity utilities ultimately responsible to the federal government. Various forms of socio-economic and political pressures have kept electricity prices very low for decades. These persistently low prices led to low levels of investments, quality and service. A second fundamental issue facing the West Africa electricity sector is the lack of significant cross-border infrastructure. Third, there is a challenging fuel supply outlook for thermal plants in countries depending on Nigerian natural gas. Some countries have started to propose and implement various reforms. 'Such reforms are using tools employed elsewhere around the world to inject competition into power markets, to increase investment in previously neglected systems, and to encourage regional cooperation where it has previously been hard to achieve'. (Source: Tufts University, Pathways from Stagnation in the West African Electricity Sector, 2013). Countries such as Ghana and Nigeria are at 'advanced stages of all the key features of the unbundled system, including the presence of or the enactment of laws that allow multiple generation companies such as Independent Power Producers (IPPs), Public Private Partnerships (PPPs) and State owned generation companies to operate in the market, an Independent Transmission System Operator (e.g. Ghana Grid Company (GRIDCO) operationalized in 2008), implementation of market rules that are fully developed and functioning and the presence of more than one distribution entity'. (Source: Tractebel, Update of the revised ECOWAS Master Plan for the generation and transmission of electrical energy, 2011 – ENER/WAPP/REG #2). In many countries, WAPP recognizes that there appears to be little impetus to reform given the market size.

Reforms in the transport sector:

Armenia:
The Government has substantially transformed transport sector management since independence from being wholly a public sector responsibility to a largely privatized operation. This transformation was influenced by the proposals of the first transport sector strategy prepared with assistance from the World Bank in 1997. Tariffs have been partly liberalized. The second Transport Sector Development Strategy prepared with the assistance of the ADB entails an Action Plan comprising a time-bound program of policy reforms and investment and technical assistance projects identified for 2009-2020. It covers road transport, railway transport, urban transport, civil aviation. This strategy envisages a much greater role for the Government, in particular in regulation, planning and policy, and in fostering efficiency in transport services. (Source: ADB, Transport Sector Development Strategy 2009-2020, 2008). The EBRD highlights in its 2012 Country Strategy for Armenia a number of challenges that are still prevailing: 'municipal capacity to plan, monitor and operate urban transport is relatively limited which leads to a deregulated and decentralized system. The low quality of urban transport is mainly due to inefficient traffic management, inappropriate public transport relying mainly on old bus fleets and unregulated minibuses, and an urban environment posing environmental, health and safety risks to the population. Institutional capacity to monitor and improve private sector participation in the sector should be improved with some regulatory functions delegated to municipalities. To achieve financial sustainability public transport fares need to be reviewed and harmonised for all transport modes, as the current low levels do not allow operators to cover most of their operating costs or replace assets in the long term.' (Source: EBRD, Country Strategy for Armenia, 2012).

Moldova:
The Government prepared, with the support of the World Bank, a Land Transport Infrastructure Strategy (LTIS) (including roads, railways and urban transport) for the period 2008-2017. It included a Strategy for Road Infrastructure Recovery and a prioritized 10-year Road Sector Investment and Expenditure Plan (together called the Road Sector Program). At the appraisal stage of the WB Road Sector Program, the following reforms in the road sector were identified as being the most urgent: (i) the creation of a reliable and stable financing mechanism for road maintenance, (ii) the reform of road maintenance execution, and (iii) the introduction of an axle load control system to curb the circulation of overloaded trucks. (Source: WB, Appraisal document for the Road Sector Program, 2007). The Transport and Logistics Strategy (TLS) for the period 2013-2022 succeeded the LTIS. It supports the ongoing process of harmonizing Moldova's transport system with the EU standards, legislation, and related regulations. (Source: WB, ICCR for the Road Sector Program Support project, 2013). The WB indicates in its ICCR that the project succeeded in generating reform momentum. The EBRD notes in 2015 that the government implemented the reforms with good progress. The TLS is under implementation, with for instance an increase in the fuel excise tax allocation to the Road Fund from 19% at the time of approval to 80% in 2012. Besides, the Reform of Road Maintenance Financing was approved. A large increase of funding for road maintenance resulted in a gradual increase of the Road Fund in line with the Transport and Logistics Strategy for 2013-2022. In addition, multi-year prioritized road investment and expenditure plan are prepared; SRA rationalized its financial management systems; and the awarding of periodic maintenance works is made on the basis of open public tender process. (Source: EBRD Operation Performance Assessment for TRANS/RoadRehab/MD #29, 2015).

Namibia:
Namibia attributes considerable significance in its national development strategies to the transport sector, with regard to poverty reduction and economic development. A white paper on transport policy was adopted in 1995, followed by a national transportation master plan in 2000. Work on the road sub-sector reform started at the end of the nineties. It initially focused on road taxation and road funding. By 1995, it had become clear that it was necessary to fully restructure the sector,

including both the institutional and financing arrangements. The road sector reform was adopted in April 2000. It resulted in the creation of three state owned enterprises in 2000: the Road Fund Administration, the Roads Authority and the Roads Contractor Company. For the other sub-sectors (e.g. railway, aviation, port and maritime), a number of feasibility studies and master plans have been produced since during 2000-2012. The Ministry of Works and Transport (MWT) has the overall responsibility for transport policy and regulation and controls the operations of the government agencies. However, the lack of adequately experienced staff (reported in 2014) raises doubts on its ability to effectively act according to its mandate. (Sources: GoN, Road sector reform, 2000; Egis International, Integrated Transport Master Plan, 2014 – TRANS/MasterPlan/NA-REG #5).

Reforms in the water & sanitation sector:

Colombia:
In 1993, the Colombian Government passed legislation on 'the concerted usage of water based on a shared diagnosis by river watershed' (specifically called 'Integrated Water Resources Management' policy or 'IWRM' policy). However, the IWRM failed to be entirely operational. Indeed, in 2009, out of the 256 river watersheds that have started a process for establishing a watershed management plan (20% of the territory), only 77 achieved it, often without taking into account the risk management aspect -in particular regarding floods- and without coherence with the municipalities planning documents. The Colombian Government decided to undertake a reform of the IWRM, which was approved by all water stakeholders and by the Colombian Government in 2010. The Ministry of Environment is in charge of defining the IWRM management policy. It established a hydrological plan to be implemented in three successive phases (2010-2014; 2014-2018; 2019-2022). Thirty-three autonomous environmental authorities are in charge of the implementation of the plans. Priority river watersheds are located in the macro hydrographical watershed of Magdalena and Cauca rivers. An evaluation of the progress made by the first phase of the hydrologic plan was made. It highlights the following points on the basis of 42 entities/authorities surveyed: a poor accomplishment in the implementation of the IWRM; a lack of financial resources to invest and of human resources as major impediments to meet the objectives set in the IWRM. 60 basin strategic management plans have been drafted in 2013/2014. Besides, the institutional organisation in the water and sanitation sector in Colombia has been marked by the 1991 Constitution, which adopted two structural guidances: (i) decentralisation and (ii) the display of the inalienable rights and the right to a healthy environment. (Sources: Project fiche, 2013 – Project WASH/IWRM/CO #20; Minambiente, Informe de seguimiento compromisos AFD, 2015).

Egypt:
There is no single overarching water resources law in Egypt. Laws of relevance for water management include several laws adopted during the period 1960-1994 about (i) irrigation and drainage and (ii) to protect the environment.

Reforms in the WS&S sector in Egypt started in the 1990s when many of the-then WS&S departmental utilities were transformed into Public Economic Authorities (PEA). The newly created PEA failed to meet expectations and by 2003 they were essentially in financial crisis, requiring on-going subsidies from the national budget. In view of the deficiencies hampering an efficient provision of services, a move towards a comprehensive reform process was initiated in 2004 with the issuance of two presidential decrees: PD 135 to form the Holding Company for Water and Wastewater (HCWW) and to transform 14 then existing PEAs to affiliated companies of the new HCWW; PD 136 created the Egyptian Water Regulatory Agency (EWRA), responsible for monitoring and regulating sector performance. Moreover the issuance of PD 1/1/6/4 in 2006 mandated, within a period of 16 months, the creation of subsidiary companies under the control of HCWW in the remaining governorates. In 2007, affiliated companies (ACs) presented a low cost recovery level, notably due to the low level of tariffs. In addition, a number of initiatives with

related policy and strategy elements are worth mentioning: Water and Wastewater Master Plans for the affiliated companies, and the Rural Sanitation Strategy. (Source: BCT Technology Enterprises GmbH, Draft IWSP Study Report, 2007; EU Agreement (TAPs), 2007 – WASH/IWSP/EG #14). In terms of water planning, the *National Water Resources Plan* (NWRP) was completed in 2003 with a time horizon until 2017. In June 2005 the Ministry presented an *Integrated Water Resources Management Plan*, which was prepared with technical assistance from the World Bank, as a 'transitional strategy including further reform interventions' building on the NWRP.

Morocco:
La loi sur l'eau de 1995 constitue une assise importante en matière de gouvernance de l'eau car elle a permis d'introduire des principes modernes de gestion des ressources en eau. Cette loi a entre autre permis d'institutionnaliser la gestion de l'eau par bassin hydrographique et a permis d'instaurer des principes comme celui du 'pollueur payeur'.

Sur le plan institutionnel, l'ONEP est chargé de la planification et de l'approvisionnement en eau potable à l'échelle nationale et de la production de l'eau potable. En 2000, les statuts de l'ONEP ont été amendés pour y inclure la compétence assainissement (collecte et épuration) et la redevance d'assainissement a été introduite. Les agences de bassin hydraulique (ABH) constituent la structure centrale pour la mise en œuvre de la gestion intégrée de l'eau: elles ont pour mission d'évaluer, de planifier et de gérer les ressources en eau au niveau du bassin hydraulique.

Le gouvernement marocain s'est doté en 2009 d'une Stratégie Nationale de l'Eau, dont l'une des composantes-clé est le programme national d'assainissement (PNA). La protection des ressources en eau est une préoccupation centrale de ce plan. Ce programme, approuvé en 2005, est mis en œuvre depuis 2006. Une hausse tarifaire concernant l'assainissement attendue depuis plusieurs années a été récemment actée dans le cadre du contrat programme 2014-2017 signé entre le Gouvernement et l'ONEE, complété par un décret prévoyant des hausses tarifaires (0,60 MAD/m3 en 2014 pour effectuer un rattrapage depuis 2008 et des hausses annuelles de 0,10 MAD/m3). Ceci restera ceci étant insuffisant pour couvrir les coûts d'opération importants de l'assainissement. De plus, des progrès ont été notés dans la mise en œuvre de la stratégie nationale du secteur de l'eau: 1/ la déclaration gouvernementale de janvier 2012 qui érige la protection des ressources en eau comme l'une des priorités; 2/ le projet de loi cadre portant charte de l'environnement et du développement durable d'août 2012; 3/ le renforcement des structures et l'activation de mécanismes de gestion intégrée des ressources en eau à travers la consolidation des missions des ABH; 4/ la mise en œuvre du mécanisme volontaire de dépollution industrielle-MVDIH. (Source : UE, documents projet UE - Appui au Programme National d'Assainissement (PNA)).

JC 5.2 The policy dialogue that took place through blending has been a contributory factor in promoting sector reforms in beneficiary countries

10 out of the 12 cases reviewed evidence that some policy-level discussions were foreseen/took place with blended projects. However all of them accompanied the implementation of sector reform in enabling large-scale infrastructure projects.

I-5.2.1 & I-5.2.2 Type and content of policy dialogue held with Government representatives of beneficiary countries within the framework of blended projects & Degree of alignment of the voices of donors/financial intermediaries involved in blending policy dialogue

Overall findings:
The evaluation shows that:

- Blending projects generally did not factor into their design explicit policy-related activities or objectives. In particular, they did not explicitly envisage the conduct of policy dialogue on

specific topics linked to the reform agendas of the beneficiary countries. ENER/Ukrenergo/UA #8 is an exception: it was expected that the TA provided would offer the EBRD a platform to engage in a policy dialogue with the Ukrainian authorities and the National Electricity Regulatory Commission on tariff reform in the transmission sector.

- EBRD is a special case with its mandate to foster transition towards open and democratic market economies.
- In about half of the reviewed cases (5 out of 12), policy-related discussions took place within the framework of the blended projects, either prior to approval or during implementation.
  - A few blended projects (1 out of 12) show that policy-related negotiations took place prior to project approval: TRANS/PublicTrans/MD #10 where the EBRD banking team agreed with the city of Chisinau on a fare reform plan that required an increase in tariffs prior to the project.
  - About half of the cases (4 out of 12) illustrate that policy discussions took place during implementation: on tariff issues for IWSP (ENER/Wind Farm/EG #32), ENER/WAPP/REG #2 where the project provided a policy platform with the ECOWAS, TRANS/RoadRehab/MD #29 where policy-level dialogue -led by the World Bank, with the participation of other IFIs- was performed on a regular basis to accompany the implementation of the Moldovan road sector reforms programme; #30 discussions on the financial sustainability of the sanitation activity in Morocco (with tariffs being too low).
- Projects TRANS/RoadRehab/MD #29 -led by the World Bank- and WASH/PNA-ONEP/MA #30 illustrate a high degree of alignment of the voices of IFIs involved, both at design and implementation stages.

Illustration of detailed facts and findings at project level:

Energy sector:

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The project design did not include any policy-related activities. KfW interviewees stressed that covenants were not used because it was felt that genuine reforms would be more effectively triggered through persuasion and demonstration than through conditionalilty. Blending was used to accompany the Egyptian policy shift as far as wind and solar energy is concerned by demonstrating the financial and technical viability of renewable energy technologies. The project has built the government confidence in wind energy installations and in their own capacity to manage or regulate similar projects. (Source: interviews in Egypt)

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): The project design did not explicitly aim at promoting reforms in the electricity sector but accompanied from the start the implementation of the reforms initiated by the GoM in the renewable energy field (Moroccan Solar Plan) through hard construction (financing of the first CSP solar plant). (Sources: EIB Project fiche and EU agreement, 2011; EIB HQ Interviews, July 2015; Interviews with MASEN, EUD and IFIs in Morocco)

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): It was expected at design stage that the project will provide the EBRD with a platform to engage in a policy dialogue with the Ukrainian authorities and the National Electricity Regulatory Commission on tariff reform in the transmission sector. (Source: EU agreement, 2009)

ENER/WAPP/REG #2 (2009-EIB-TA): The project did not explicitly factor the conduct of policy dialogue at design stage. Interviews held at EIB HQ indicated that the WAPP/ERERA project (TA) provided i) a 'financiers platform' where external donors/IFIs could dialogue with ECOWAS counterparts and ii) a policy platform with the ECOWAS (Source: EIB HQ interviews). The revised WAPP master plan is providing a long-term vision on a regional electricity network in

West Africa. It is hence a key building stone for any electricity/energy policy at national and regional levels. Similarly, the operationalization of a regional West-African regulatory authority (**ERERA (#3)**, supported by blending TA) is a key building stone for any electricity/energy policy at national and regional levels. (Source: Interviews in Benin and Togo)

Transport sector:

Moldova:
TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): policy dialogue was led by the WB, within the framework of a large joint IFI support programme to road rehabilitation. The NIF contribution financed part of this programme. Policy dialogue took place at design stage and during implementation. At the time of approval of the joint IFI project, IFIs set the following objectives: adoption of a road sector strategy; reform of the road sector financing; competitive tendering of rehabilitation and maintenance works; and institutional strengthening at the level of the road authority. EBRD's policy dialogue was part of the broader effort led by the WB, and focused on the implementation of the above-mentioned reforms. EBRD introduced a number of covenants and conditions into the loan in order to ensure the implementation of supported reforms. All reform-related covenants have been met although some with technical delays. According to EBRD HQ interviewees, one of the main covenants of the EBRD loan was to ensure greater public funding for maintenance; the fund for maintenance has been increased to 80m€ for 2015, which was considered enough. Dialogue was performed on a regular basis through participation of the EBRD in semi-annual joint IFI missions (WB, EBRD, EIB, EU, MCC) on transport sector where direct discussions with the Government were taking place, by bilateral meetings between the EBRD's management and the Government as well as on average on a bi-weekly basis by the Resident Office. The EBRD also participated at regular semi-annual IFI missions to Moldova reviewing progress on both road rehabilitation and sector reforms implementation. (Source: EBRD Operation Performance Assessment, 2015). The WB notes that 'all external partners in the road sector were speaking to the Government with one voice and shared goals for capacity building and road sector reform'. (…) 'All external partners and the Government had a shared road sector vision borne out of the Land Transport Infrastructure Strategy (LTIS) and linked their loan conditions to reform targets expressed in the LTIS'. (Source: ICCR, Road Sector Program Support Project, 2013; Interviews in Moldova)

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): Prior to the project, the EBRD banking team agreed with Chisinau City on a fare reform plan that required an increase in tariffs, hence before the actual improvement in services. On this basis, the City increased the trolleybus tariff by 100 per cent. It did not increase tariff for the rest of public transport services proportionally. Since the increase was not linked to improvement in services, the Company first observed a dramatic decrease in passenger numbers with negative net results. Besides, a new strategy for public transport up to 2025 is being implemented by the Municipality. (Source: EBRD, Project fiche; EBRD, TIMS, 2014; Interviews in Moldova).

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): The project design did not include specific activities aiming to foster policy dialogue. Policy changes were not specifically addressed by the project. (Source: EIB HQ Interviews, July 2015; Interviews in Namibia).

Water and sanitation sector

WASH/IWRM/CO #20 (2013-AFD-TA): With this project, the EU, AFD, the Development Bank of Latin America (CAF), and the Water Agency Adour-Garonne jointly support the implementation of the IWRM policy and in particular of the 'Horizon 2014 IWRM hydrologic plan'. The project also includes a budget support component (AFD BS loan of 100m$ disbursed in one tranche) to support the implementation of the IWRM policy and a component supporting

the monitoring of the implementation of the policy through key indicators. The LAIF contribution only concerns component 3 of the project on TA and investment (see below JC 5.3). The project encountered implementation delays due to administrative issues (delays to formulate the agreements) and institutional difficulties within the Ministry of Environment. The pilot project of Lake Tota financed through the LAIF was key to accompany the implementation of public policies at local level. This is key in a context where the implementation of the IWRM policy -finally adopted in 2010- has remained rather poor at local level. The pilot project has been the first participatory exercise in the country on water management processes, which can generate knowledge on different key themes. (Sources: EU, Annex 1 to the Agreement, 2013; AFD HQ Interviews, July 2015; Minambiante, Informe de seguimiento compromisos AFD, 2014; Interviews with AFD and the Ministry of Environment in Colombia).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The project design did not include any policy-related activities or objectives. There were some policy-level discussions through blending, e.g. dialogue on the financial aspects where IFIs asked ONEP to bear half of the costs of the investments because tariffs in Morocco were too low and discussion on the financial sustainability of the sanitation activity (also at risk due to tariffs levels which are too low). But policy dialogue on tariff issues rather took place through the EU budget support to sanitation (€50m during the period 2009-2013) and through the loans provided by the IFIs. Indeed, the loans provided by the IFIs proved more powerful to impact on tariff issues than the NIF grant. The GoM and ONEE signed a 'contrat-programme' covering the period 2014-2017 complemented by a decree foreseeing tariff increases (0,60 MAD/m3 in 2014 to catch up since 2008 and yearly annual increase of 0,10 MAD/m3) that were expected for several years. This will however remain insufficient to cover high operating costs. (Source: EU Agreement, 2010; AFD HQ interviews; interviews with AFD and ONEE in Morocco).

I-5.2.3 Degree of coherence and coordination of blending policy dialogue with other EU policy work, in particular policy dialogue conducted within the framework of budget support programmes and policy dialogue held within other fora (e.g. sub-committees monitoring the implementation of the Neighbourhood Association Agreement)

Overall findings:

The evaluation shows that:
Synergies at the level of the EU portfolio in the ten countries visited between blending and other EU policy work have not often materialised. It should be noted that budget support, which is a EU aid modality tailored to foster policy dialogue, was not systematically used in the sectors targeted by blending in the countries visited (e.g. cases of Congo, Kenya, Benin/Togo, Namibia). Where both blending and EU BS were used in the same sector (Egypt, Colombia, Morocco), synergies were noted in the Mediterranean area. Blended projects supporting the energy and water sectors in Egypt and the sanitation sector in Morocco were part of a wider EU comprehensive package of support to sector reforms, including high-level policy dialogue within the framework of the Neighbourhood Association Agreement, technical assistance and advisory services to underpin the sector reforms, and EU budget support programmes. Policy dialogue in support of sector reforms mainly takes place within ENPI fora and within the framework of budget support operations. Blended projects complemented these efforts. In both Egypt and Morocco, blending accompanied the materialization of public policy reforms supported by BS in allowing large-scale investments in sanitation infrastructure and in renewable energy. Conversely, in Colombia, there was no linkage between the IWRM project and relevant EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia.

Illustration of detailed facts and findings at project level:

Energy sector:

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): At the time of project appraisal, the Government of Egypt was planning to further liberalise the electricity sector. The EU was engaged in a sector policy dialogue with the Egyptian Government (cf. the EU-Egypt Memorandum of Understanding signed in December 2008) and was providing comprehensive technical assistance and advisory services to underpin the sector reform and the establishment of a regional electricity market. The project intends to complement the efforts of the EU to support the Government of Egypt's reform agenda through the identification of a EU Energy Sector Policy Support Programme while improving key sector infrastructure. It is also in line with the ENP Action Plan. Besides, as part of its overall economic reform process, Egypt was engaged in a structural adjustment programme - with assistance from the IMF, World Bank group and EU - to enhance the efficiency and performance of the public sector. The project is in line with the Power Transmission Network Master plan of the GoE for the period 2008-2030; it represents 60% of capital investment in the very-high and high voltage network for the period 2010-2015 (Source: EU, Financing agreement, 2010, and EIB, Project fiche).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The policy priorities of IFIs and the EUD were highly coordinated and strongly conveyed to the GoE during project negotiations. This blending operation showed the consensus amongst European Development Partners around renewable energy promotion (Source: Interviews in Egypt). An important and active policy dialogue is generated in the framework of the Sub-Development Partners Group (DPG) on Energy and Environment with the Ministries of Electricity and Energy, Petroleum and Environment which was co-chaired by KfW and AFD in 2014. The EU has been co-funding a number of projects in the field of energy and renewables with KfW, AFD and EIB such as the Gabal El Zeit Wind Farm Project, 'which creates de facto close ties and exchanges between the different European donors'. (Source: EU, Single Support Framework for EU Support to Egypt 2014-2015).

Water and sanitation sector:

WASH/IWSP/EG #14 (2008-KfW-Grant): The framework for the IWSP is the EU financed Water Sector Reform Programme (BS) aiming at reforming the water sector. The Policy dialogue with the two water-related ministries namely Ministry of Water Resources and Irrigation and Ministry of Water and Wastewater Utilities together with the Ministry of Finance has been ongoing since 2005 and continues through the EU Water Sector Reform Programme (Source: EU, Single Support Framework for EU Support to Egypt 2014-2015). Reforms to the water sector began materializing when BS was complemented by projects like the IWSP which allowed large scale investments in sanitation infrastructure and tangibly improved service provision for citizens. (Source: Interviews in Egypt).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The EU intervened in sanitation through the NIF PNA-ONEE, a BS operation ('Appui au Programme National d'Assainissement' -€50m during the period 2009-2013-) and a traditional project (Projet d'Appui Institutionnel PAI). Linkages were established between the NIF and budget support (BS) operations to sanitation: the NIF enabled to support the operator (ONEE) while higher-level policy dialogue and contacts with the inter-ministerial committee of the PNA took place within the framework of BS. With BS being finalised since 2013, the ongoing design of the NIF PNA-ONEE phase II foresees an institutional component to ensure the continuity of the discussions launched with BS. The combination of both BS and Blending was interesting. Moreover, the NIF PNA-ONEE Phase I and the PAI1 complemented each other in financing various centres of the PNA. (Sources: interviews with IFIs, EUD and ONEE, project documents).

I-5.2.4 and I-5.2.5 Contributing factors to policy changes: Linkages between blending policy dialogue and observed policy changes & Relative importance of blending policy dialogue compared to other sources of influence (e.g. domestic policy decisions, other fora for dialogue, other projects including budget support, etc.) in observed policy changes

Overall findings:

Policy discussions held within the framework of blended projects were not triggers leading to the adoption or the implementation of specific sector reforms. They rather complemented other support to sector reforms: e.g. high-level policy dialogue with the government and reform agenda promoted through EU BS programmes. They often focused on key issues within the sector reform programme of beneficiary countries, and in particular on tariff issues (e.g. TRANS/PublicTrans/MD #10, ENER/O.SolarPlant/MA #15, WASH/PNA-ONEP/MA #30, ENER/Wind Farm/EG #32). The investment in physical projects represented a useful complement to the EU BS reform agenda in the Mediterranean area (renewable energy and sanitation in Egypt and Morocco - ENER/PowerTrans/EG #31, ENER/Wind Farm/EG #32, WASH/PNA-ONEP/MA #30), or the WB-led reform agenda (Transport in Moldova - TRANS/RoadRehab/MD #29).

The survey shows that reform processes have been rather triggered by other sources of influence than through the TA or policy dialogue provided through blending. The policy dialogue held within the framework of blending projects influenced reforms to a moderate or high degree for 52% of the respondents. Other sources of influence promoted policy reforms to a moderate or high degree for 65% of the respondents.

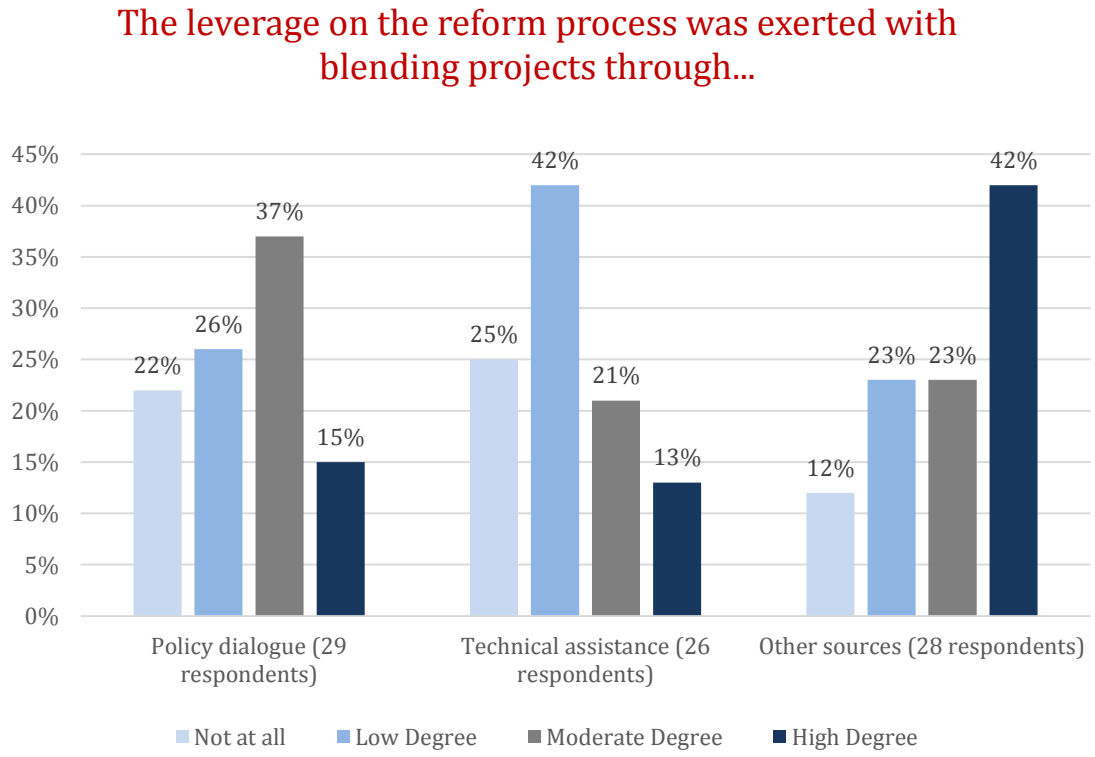


Illustration of detailed facts and findings at project level:

Energy sector:

In Egypt, blended projects did not trigger as such specific policy reforms but came as a complement to wider EU efforts in support of the Government of Egypt's reform agenda.

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): At appraisal stage (of the blended project), the EIB devoted attention to the tariff issue, which was a key aspect of the Egyptian reform programme. It required that the national public electric utility examined the adequacy of tariffs to meet the full costs of energy supply and proposals for further tariff adjustment to mitigate the sustainability risk. It is estimated that a real increase in tariffs of 2% per year for four years should cover the marginal investment and operating costs of new generation and transmission needed to meet the incremental demand for 2012-2015. The Government's current commitment to a 7.5% annual increase of electricity price is judged as adequate to ensure acceptable financial profitability. (Source: EIB, Proposal to the Board of directors, 2010).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): the operation supported the shift in GoE polices in support of wind and solar energy including feed-in-tariffs and a Build-Own-Operate system by demonstrating the financial and technical viability of renewable energy technologies. It built the government confidence in wind energy installations and in the national capacity to manage or regulate similar projects.

Transport sector:

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The WB indicates in its ICCR that 'the project succeeded in generating reform momentum: the Government has implemented all the required reform measures since the project beginning' (Source: ICCR, Road Sector Program Support Project, 2013). 'The joint effort of IFIs resulted in important reforms implemented in the sectors that paved the way for the following projects financed by IFIs', also supported by the NIF but to a lesser degree of concessionality (Sources: 2015 EBRD Performance Assessment Report; EBRD HQ interviews). The 2015 EBRD Performance Assessment Report indicates that 'EBRD's policy dialogue in the transport sector was part of the broader effort led by the WB and was focused on the implementation of the reforms outlined by this project as well as further road projects'.

Water and sanitation sector:

WASH/IWSP/EG #14 (2008-KfW-Grant): the operation has helped laid the groundwork for sector reforms that will encourage greater private sector participation. IWSP investments made the idea of a tariff increase more acceptable in light of the tangible improvements to water and wastewater services in rural areas. A new law increasing water tariffs is expected to be passed in 2017. (Interviews in Egypt with EUD, national partners, IFIs).

WASH/IWRM/CO #20 (2013-AFD-TA): The AFD conducted some policy dialogue at appraisal stage around the covenants of its BS loan supporting the implementation of the IWRM policy. The LAIF support enabled the financing of the pilot project of Lake Tota. This was key to start the implementation of the IWRM policy at local level, which remained rather poor until then. The pilot project has indeed been the first participatory exercise in the country on water management processes, which can generate knowledge on different aspects, and in particular on the governance and management of the sector, and in terms of conflict resolution. (Sources: Interviews with AFD; national and local counterparts in Colombia)

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Policy dialogue on tariff issues rather took place through the EU budget support to sanitation (€50m during the period 2009-2013) and through the loans provided by the IFIs. Indeed, the loans provided by the IFIs proved more powerful to impact on tariff issues than the NIF grant. The GoM and ONEE signed a programme contract covering the period 2014-2017 complemented by a decree foreseeing tariff increases (0,60 MAD/m3 in 2014 to catch up since 2008 and yearly annual increase of 0,10 MAD/m3) that were expected for several years. This will however remain insufficient to cover high operating costs. (Source: Interviews in Morocco and in Paris with AFD and national counterparts).

Financial sector:

The field visit in Moldova shows that the contribution of blending projects to reforms in the financial and SMEs sectors has been limited. Regarding the SME FF, no policy dialogue has been conducted for the leasing sector in Moldova. EFSE's implementing partner has been involved for a while in a dialogue for the adoption of a 1st draft law on Non-Bank Financial Institutions (prepared with the support of the World Bank). The law has not been approved yet. (Source: interviews in Moldova)

WASH/IWSP/EG #14 (2008-KfW-Grant) & ENER/Wind Farm/EG #32 (2008-KfW-Grant): Other sources of influence were key: the EU Delegation provided added value: i) it complemented the policy level discussions that the IFIs also had with the government i.e. sent the same message and used complementary channels; ii) it ensured that the budget support reform agenda was complemented by physical investment projects and vice versa (the EU and IFIs can point to large scale demonstration of service provision -using decentralised management in the case of the water sector and to the viability of wind energy in the case of the energy sector- to support their policy dialogue positions); iii) it supported wider studies e.g. the energy sector master plan which gave mutual support to the energy sector and the El Zayt project. (Source: KfW interviews HQ, 2015; Interview with EUD, national partners and IFIs in Egypt).

JC 5.3 The TA provided through blending has been a contributory factor in promoting sector reforms in beneficiary countries

I-5.3.1 Undertaking of useful regulatory and institutional reforms studies through EU financed TA (e.g. studies which addressed key sector performance issues in the sectors supported by blending projects)

Overall findings:

The evaluation shows that the TA financed through blended projects often led to the production of feasibility studies presenting a detailed sector-level assessment (WASH/IWSS/MD #11), or of studies assessing the current situation of the identified beneficiary company (ENER/Ukrenergo/UA #8), or supported the preparation of Master Plans, including a list of priority investment projects to be financed (TRANS/MasterPlan/NA-REG #5, ENER/WAPP/REG #2).

Illustration of detailed facts and findings at project level:

Energy sector:

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The project aims to provide TA and advisory services to underpin the sector reform and the establishment of a regional electricity market. (Source: EU, Financing agreement, 2010). TA helped improve beneficiary capacity in terms of project management (financial management, oversight of construction activities, monitoring and evaluation, procurement, etc.) but was not focused on technology transfer or broader policy issues;

hence the effects of TA on sector reforms are timid. (Source: EIB Progress project reports, 2013 and 2014 and Interviews in Egypt).

WASH/IWSP/EG #14 (2008-KfW-Grant): The EU implementation agreement requires the Holding Company for Water and Wastewater (HCWW) to prepare on an annual basis a report on sector reform key issues such as tariff reform and Government subsidies destined for the programme region (Source: EU implementation agreement, 2011). TA was not focused on technology transfer or broader policy issues; hence its effects on sector reforms are timid. (Source: Interviews in Egypt)

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): The project design did not aim at fostering the regulatory and legal framework, though it recognizes that barriers to investing in energy efficiency projects exist in the legal and regulatory environment. (Sources: EBRD HQ interviews, July 2015; interviews with EBRD and BMCE in Morocco).

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The TA team prepared a 'Stage 1 Report' (December 2010) that presents an assessment of the current situation of the company including critical analysis of key constraints and challenges associated with the corporatisation of Ukrenergo. (Source: Project Progress Report 2012).

ENER/WAPP/REG #2 (2009-EIB-TA): The West African Power Pool 'constitutes the institutional framework of the regional electric system'. It intends to establish a unified regional electricity market. The project financed a TA to update the West African Power Pool master plan for electricity production and transportation, which is the basis for WAPP planning and prioritization work. The technical study proposed a list of regional priority projects on the basis of identified technical, environmental and financial constraints. EIB staff considers this pipeline as being adequate. The study also proposes an implementation strategy that identifies potential risks and operational constraints (e.g. interconnection between the different systems that can only be progressive, WAPP lacking sources of funding) (Source: Tractebel, Update of the ECOWAS revised Master Plan for the generation and transmission of electrical energy, Final report, 2011; and Interviews in EIB HQ).

Transport sector:

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): The Namibian transport sector suffered from a lack of integrated planning with different sub-sector master plans having been developed in a fragmented manner, holding back prioritization of investments. There was a need for a national plan for transport that will guide transport planning and management. This overlooking master plan across all transport modes was expected to lay down transport infrastructure services which are responsive to the needs of the Namibians and others in the region as well as harmonised procedures and regulations. The transportation and implementation plan was expected to provide a strategic assessment of Namibia's transportation needs and planned solutions towards 2040. (Source: EIB, Terms of reference for Integrated Transport Master Plan for Namibia, 2011; EU-AITF, Request for approval of a technical assistance, 2010). The TA supported the preparation of the Integrated Master Plan. It included: an evaluation of existing transport infrastructure and operations, a traffic demand forecasting model, a list of investment for transport capacity expansion, a methodology to prioritise investments, and an analysis of funding options. (Source: EU-AITF, Completion note, 2014.) The Master Plan indeed highlights the challenges faced by each sub-sector (e.g. rapidly deteriorating condition of the road network, insufficient revenues generated by the Road User Charges System (RUC) to cover the needs for maintenance and rehabilitation; shortage of qualified staff within the administration for the road sub-sector). It proposes solutions: e.g. increase in RIC tariffs, rehabilitation of existing paved roads, and strengthening of technical capacities. It then identifies a list of infrastructure and capacity development projects for each sub-

sector and analyses the funding options. (Source: Egis international, Integrated Transport Master Plan, 2014)

Water and sanitation sector:

WASH/IWSS/MD #11 (2009-EBRD-TA): The blending TA consisted in a feasibility study to carry out a detailed assessment of the issues faced by the water and sanitation sector in Chisinau (Moldova) and to identify technical solutions. The study includes five main components: water supply analysis, sewage network analysis, sludge disposal, institutional strengthening and environmental impact assessment. The investment programme aims (amongst others) to bring technical and efficiency improvements in the provision of water and sanitation services as well as introducing an incentive based service contract and tariff increases. (Source: EU agreement, 2009). The feasibility study has been produced in 2012; it includes a priority investment programme (PIP). Discussions started on the financing of this PIP between EBRD, EIB, KfW and EU. The programme is not yet implemented (Source: EBRD HQ interviews).

I-5.3.2 Provision of technical assistance to help developing the legal and regulatory framework of beneficiary countries

Overall findings:

The evaluation shows that:

- In most cases, blended projects aimed to boost sector reforms through TA/institutional strengthening supporting the development of the legal and regulatory framework and/or improving the capacity and efficiency of national/regional authorities or restructuring utility companies (e.g. Chisinau Trolleybuses Company for project TRANS/PublicTrans/MD #10 and Ukrenergo for ENER/Ukrenergo/UA #8; affiliated companies in the water sector for WASH/IWSP/EG #14; sanitation operator (ONEE) for Project #30; Colombian Ministry of Environment for WASH/IWRM/CO #20).
- This TA was either at the core of the blended project (e.g. ENER/ERERA/REG #3, ENER/Ukrenergo/UA #8, WASH/IWSP/EG #14, WASH/PNA-ONEP/MA #30, OTHER/TA Munic/UA #34) or provided through a specific component of the blended project focusing on institutional strengthening (while the contribution from the facilities focused on physical investments), or provided as complementary support (i.e. through the EBRD Technical Cooperation Funds Programme for 2 EBRD-led projects; TRANS/MetroRehab/AM #9 and TRANS/PublicTrans/MD #10).
- This TA often focused on key (aspects of the) policy priorities of the beneficiary countries. For instance TRANS/MetroRehab/AM #9 addressed the deterioration of urban transport in Yerevan, which was one of the priorities of the transport policy reform. Projects ENER/Ukrenergo/UA #8 in Ukraine, WASH/IWSP/EG #14 in Egypt and ENER/ERERA/REG #3 in West Africa focused on improving the efficiency of the energy sector, which was one of the key sector challenges: ENER/Ukrenergo/UA #8 supported the corporatization process of Ukrenergo in view of boosting reform in the power sector; WASH/IWSP/EG #14 aimed to improve the efficiency of the affiliated companies of four governorates and of the Holding Company for Water and Wastewater (HCWW); ENER/ERERA/REG #3 focused on improving the functioning of the West African regional energy regulatory body.
- The TA provided often led to improvements in the legal and regulatory framework of the beneficiary countries or in the management of the sector, though reform processes were lengthy and sometimes constrained in their progress with the deterioration of the country political situation. ENER/Ukrenergo/UA #8 registered significant progress on the institutional front but the implementation of reforms was lagging behind due to the conflict situation in Ukraine. For ENER/ERERA/REG #3, a range of regulatory activities were

carried out within the framework of the project (e.g. ECOWAS directive to have a legal framework on electricity exchanges; assistance to Senegal river basin organisations to improve electricity exchanges) but ERERA could not act -as yet- as per mandate due to the unwillingness of the national authorities to involve ERERA. For TRANS/PublicTrans/MD #10, activities linked to the restructuring of the Chisinau Trolleybuses Company have well advanced with a Public Service Contract giving a robust management being used since January 2012. As far as the technical cooperation is concerned, significant delays were encountered in the procurement process; the adoption of the transport strategy was lengthy but finally made mid-2015. TRANS/MetroRehab/AM #9 is a success story with the majority of the benchmarks of the technical cooperation being achieved, including in particular the signature of a Public Service Contract (PSC) between Yerevan City and YMC setting out the parties' rights, responsibilities and financial obligations, including subsidies and maintenance support. For TRANS/RoadRehab/MD #29, the institutional strengthening component of the RSPSP led to improvements: adoption of the Transport sector strategy; update of the Road Fund legislation; reform of the road maintenance industry through consolidation of the numerous state owned maintenance companies; increased capacity of the State Road Administration has increased with WB-financed TA.

Illustration of detailed facts and findings at project level:

Energy sector:

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The objective of the TA was to review the current Ukrainian legal and regulatory framework and formulate recommendations on steps towards legal and commercial corporation of Ukrenergo (national energy company) in view of boosting reform in the power sector. The TA provided focused on the improvement of the efficiency of the sector, which was a key sector challenge to be addressed. The reports prepared provided details on several aspects facilitating the implementation of the corporatization process of Ukrenergo. The documentation does not indicate whether this TA was useful for the beneficiaries. The corporatization of Ukrenergo is subject to the amendment of specific laws in view of Ukraine's integration into the European electricity market. The TA team prepared in May 2011 drafts for the law amendment required for the corporatization process. There is also a need for substantial tariff increases for Ukrenergo being able to recover incurred costs. Tariffs in the sector are identified as not being 'truly cost reflective' (Source: Mercados-Energy Markets International, Ukrenergo Corporate Sustainable development, Draft Stage I Report, 2010; and Stage 3 Final Report, 2011). The Road Map for Corporatisation of Ukrenergo has been approved in 2011 by the Minister of Energy and Coal Ministry (Source: Project Progress Report 2012). Interviews with EBRD staff in headquarters indicated that on the institutional and reform front the plans and recommendations were made but that they were not implemented as yet due to the conflict situation in Ukraine; hence the corporatization process (key to the reform of the power sector) is not yet finalised. The TA provided succeeded in supporting the utility to become a viable corporate entity (Source: Interviews at EBRD HQ).

ENER/ERERA/REG #3 (2008-AFD-TA): Le projet s'est déroulé en deux phases. La première phase (2006-2009) a porté sur l'ingénierie du développement de l'organe de régulation et a abouti à la création de l'ARREC. La seconde phase (à partir d'Octobre 2009) a consisté en l'établissement de l'ARREC et en la mise en œuvre des premières activités de régulation. L'ARREC a pour but d'assurer la régulation des échanges transfrontaliers d'électricité et d'apporter un appui aux régulateurs nationaux du secteur de l'électricité des Etats Membres (Source: Convention de financement AFD, 2010). ERERA was established. It is a new regional institution. ITF funding aimed to secure operating and functioning costs for the first years. Donors' contribution should progressively phase out until 2011-2012 while the contributions of power utilities will increase from 2012 on (source Application form – Annex). Interviews held in AFD HQ indicated that many

regulatory activities were carried out (e.g. ECOWAS directive to have a legal framework on electricity exchanges; assistance to Senegal river basin organisations -which has a powerplant- to improve electricity exchanges) but that the project was not so successful because ERERA could not act -as yet- as per mandate due to the unwillingness of the national authorities to involve ERERA.

Transport sector:

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The NIF contribution supported the second phase of the Moldovan Road Sector Program Support Project (RSPSP). It focused exclusively on one of the two components of the project: road rehabilitation (and not on institutional strengthening). (Sources: EBRD, Project Fiche; EU Financing agreement, 2008). The institutional strengthening component of the RSPSP aims 'to support reform of road sector financing and institutional strengthening of the State Road Administration (SRA) to improve its capacity to manage the road network and carry out road works effectively and efficiently. As part of the Project, the Government has adopted in 2013 a new Transport sector strategy, which includes the establishment of a reliable and stable financing mechanism for the road sector and an increased budget for road maintenance. The new strategy also aims at ensuring competitive tendering for periodic maintenance contracts on public roads'. (Sources: EBRD, Project Fiche; Interviews in Moldova). The Road Fund legislation has been updated. There has also been reform of the road maintenance industry through consolidation of the numerous state owned maintenance companies. (Source: WB, ICCR, Road Sector Program Support Project, 2013). The staff of the SRA was strengthened with consultants in procurement, financial management, environmental issues financed by the WB as part of the overall project. SRA capacity has increased. (Source: EBRD Operation Performance Assessment, 2015). The 2013 EU ROM report advised 'EBRD and EU that planning further support for road transport sector should take under consideration linkages to institutional strengthening component of RSPSP, because expected impact and sustainable results in physical road rehabilitation can be achieved only if there is concomitant progress and improving capacity of the Government to effectively manage the whole system for maintenance of the road network'. (Source: EU ROM report, 2013).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The project consisted of 4 components, with 3 of them being linked to the legal and regulatory framework for public transport in Chisinau. The EBRD Technical Cooperation Funds Programme was envisaged to support the introduction of (i) a sound regulatory framework for public transport in Chisinau and (ii) an e-ticketing system. EIB and ERBRD loans supported the restructuring of the Chisinau Trolleybuses Company. The NIF contribution was envisaged to co-finance the part of the project related to the purchase of the new trolleybuses (Source: EBRD Project Fiche; EU financing agreement, 2010). Concerning the restructuring of the Company, a Public Service Contract giving a robust management is being used since January 2012 (Source: EBRD HQ interviews). Under the technical cooperation, delays were encountered. An electronic ticketing system –which was delayed by 2 years (visa issues)- is in place. Concerning the restructuring of the Institutional and Regulatory Framework for public transport in Chisinau, a programme financed by the German Government was only initiated in 2011 due to delays in the procurement process. Mid-2015, the new public transport strategy (which aims to exclude routes of minibus taxi doubling trolleybus routes) was finally adopted (this was the result of a lengthy process). (Sources: EBRD, Project fiche; EBRD, OPA report, 2015; EBRD, TIMS, 2014; EBRD, Final technical and financial report, 2013; Quarterly progress report, 2013; interviews in Moldova).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The project focuses on municipal transport. It addresses one of the major policy priorities identified in the 'Armenia Transport Strategy 2020', addressing the deterioration of urban transport in Yerevan. It consists of two phases, with Phase I addressing emergency rehabilitation needs of the Yerevan metro and phase II

requiring additional technical preparation. Phase I of the project financed by the EBRD, the EIB and the EU focuses on the investment programme only. The EBRD also provided technical cooperation to the company to improve its efficiency. (Sources: ADB, 'Armenia Transport Strategy 2020', 2008; EBRD Project Fiche; EU financing agreement, 2010). The majority of the benchmarks of the technical cooperation were achieved - including the signature of a Public Service Contract (PSC) between Yerevan City and YMC setting out the parties' rights, responsibilities and financial obligations, including subsidies and maintenance support with a view to improve transport service quality - (Source: EBRD, TIMS review, 2013). Over time, progress materialized on the public policy front, with the municipality having undertaken steps to integrate and improve the city's transport system. 'This includes the development of a phased masterplan, removal of the over-crowded and rather hazardous mini-buses from some routes, and the realignment of other overground routes so that they do not run in parallel with the metro, rather act as feeders for the metro'. (Source: EU ROM report, 2012). The second phase of the Metro investment project had a covenant embedded by the IFI on reforming the urban transport network, which would help bring more passengers to the metro service, diverting these passengers from less sustainable competitor modes of transport (e.g. minibuses). Pending studies are tasked to propose solutions for metro systems through intermodal connections, smart integrated ticketing and optimisation of public transport routes. The metro investments were accompanied by doubling of fare tariffs which is in line with the long term policy to commercialize the public services and gradually phase out subsidies. (Source: Interviews in Armenia).

Water and sanitation sector

WASH/IWRM/CO #20 (2013-AFD-TA): The LAIF contribution (component 3 of the project) follows a 2-year technical cooperation (200,000€) from the Adour-Garonne Agency in 2012 (decentralized cooperation) so as to scale it up. Activities started slowly but progress is being made particularly in the i) governance of the water sector, with the revitalization of the basin council in Tota; and ii) management of the sector with programming tools developed (strategic plans of the macro basins; update of the river basin management and development plan in Tota (POMCAs) and of the management guide of the POMCAs; formulation of the watershed management plan and of the related management guide). (Source: Annex 1 to the EU agreement, 2013; Project Fiche; Interviews in HQ AFD; Informe de seguimiento, 2015; Interviews in Colombia with AFD and national and local counterparts).

WASH/IWSP/EG #14 (2008-KfW-Grant): The EU supports through a specific programme (EU-WSRP) the legal, financial and institutional reforms of the water sector at large. The blending operation (IWSP) aims to improve (i) water quality and wastewater services through investment in infrastructure and (ii) the efficiency of the affiliated companies of four governorates and the Holding Company for Water and Wastewater (HCWW), budget and financial management in the sector and the governance for water supply and sanitation through the provision of TA. (Source: EU financing agreement, 2008). The mid-term review (2014) notes the negative effects of the periodically instable situation in Egypt since the beginning of 2011 and that the performance of all four ACs has decreased over the period 2011-2013. (Source: BCT Technology Enterprises GmbH, Mid-term review, 2014). The field visit in Egypt showed that very little if any of the TA was focused on technology transfer or broader policy issues.

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): the TA provided through the NIF grant enabled to accompany the implementation of the PNA through TA used to support the ONEE for programme oversight, to cover more punctual needs as well as to finance strategic studies (Interviews with AFD and ONEE in Morocco).

Multi-sectors:

OTHER/TA Munic/UA #34 (2008-EBRD-TA): The blending operation aimed to provide TA in support to several investments that the EBRD developed in several Ukrainian municipalities in the water and wastewater, district heating and urban transport sectors. It foresaw feasibilities studies, corporate development and implementation assistance. It aimed to contribute to the adoption of tariff setting policies and to transfer of skills. (Source: EU agreement, 2008). The TA provided mainly consisted in support to general project implementation, including procedural and reporting requirements to the EBRD. (Source: NIF progress report n°5 for the period of January – December 2014).

I-5.3.3 & I-5.3.4 Contributing factors to policy changes: Linkages between advisory and/or capacity building activities and observed policy changes & Relative importance of relevant advisory and/or capacity building compared to other sources of influence e.g. domestic policy decisions, other projects including budget support, etc.) in observed policy changes

Overall findings:

The evaluation shows that:

- Advisory/capacity building activities often complemented a wider package of support to reforms.
  - For countries of the Mediterranean and the East European EU neighbours, this package is linked to the implementation of the EU bilateral agreements (Partnership and Cooperation Agreements (PCAs), Association Agreements (AAs)) and to sector reform programmes within which the World Bank is heavily involved. For instance, for project ENER/Ukrenergo/UA #8, the support was provided in a wider context where Ukraine is following a roadmap to progressively integrate its energy (electricity and gas) market with that of the EU (EU-UA ENP Action Plan, EU-UA AA). Besides, the WB supported during 2007-2014 the implementation of the Ukrainian Energy Sector Reform and Development Program, particularly through investment lending. ENER/Ukrenergo/UA #8 accompanied the corporatization process of Ukrenergo but the latter was incomplete, notably due to the conflict situation in Ukraine in 2013. In Moldova, reforms in the transport sector have been strongly guided by the World Bank. For TRANS/PublicTrans/MD #10, policy changes linked to the project (support to the introduction of a sound regulatory framework for public transport in Chisinau and for an e-ticketing system) were modest during the project implementation period due to delays faced in the procurement process; the adoption of the transport strategy was lengthy but finally made mid-2015.

Table 37 - Signature of the EU bilateral agreements with beneficiary countries

	Partnership and Cooperation Agreement	Association Agreement	Advanced Status
Armenia	31 May 1999	NA. Joined the Eurasian Economic Union on 29 May 2014	
Egypt		25 June 2001 (into force on 1st June 2004)	
Moldova	28 May 1998	27 June 2014 (not yet into force)	
Morocco		26 February 1996 (into force on 1st March 2000)	13 October 2008
Ukraine	26 January 1998	27 June 2014 (not yet into force)	

  - In West Africa, Namibia and Colombia blended projects did not trigger policy reforms as such but focused on specific policy-related issues part of the wider reform agenda: the

update of the WAPP master plan (ENER/WAPP/REG #2) or of the Namibian Transport Master plan (TRANS/MasterPlan/NA-REG #5), or support to ERERA in the conduct of regulatory activities (ENER/ERERA/REG #3); support to a pilot project in Lake Tota so as to start the implementation of water resources management policies (IWRM) at local level (WASH/IWRM/CO #20).

- This is in line with the results of the survey to EUDs (see above figure in JC5.2) which show that the technical assistance provided through blending projects have had mostly a limited leverage on sector policy reforms, with 67% of the respondents considering that the instrument had no influence at all or to a low degree to the reform process. Other sources of influence promoted policy reforms to a moderate or high degree for 65% of the respondents.

Illustration of detailed facts and findings at project level:

Energy sector:

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The TA successfully supported Ukrenergo to become a viable utility company. However, the corporatization process was still ongoing; the implementation of institutional reforms was lagging behind due to the conflict situation in Ukraine. Besides, the support was provided in a wider context where Ukraine was following a roadmap to integrate its energy sector with the EU market. Within the context of the implementation of the EU-Ukraine ENP Action Plan, a "Memorandum of Understanding on Co-operation in the Field of Energy between the EU and Ukraine" (the MoU) was signed on 1 December 2005. The MoU establishes a joint strategy towards the progressive integration of the Ukrainian energy market with that of the EU and consists of several road maps including the integration of electricity and gas markets. The signature of the EU-AA in 2014 'determines the need to change Ukraine's approach to formulating the country's energy policy, which has to be consistent with the EU principles and practices. (Source: GoU, Energy strategy of Ukraine through 2035, 2014). The EU-Ukraine Association Agenda includes the energy sector reform as a short-term priority for action. It foresees in particular: adoption of a new Energy Strategy and Action Plan; adoption of the law on the new regulatory body for gas, electricity and utilities; further strengthening of the capacity and independence of the National Energy and Utilities Regulation Commission (NEURC); continuation of the reform of electricity tariff and gas pricing. It also foresees the implementation of EU directives in the area of energy efficiency and renewable sources of energy. (Source: EU-Ukraine Association Agenda, 2015). In addition, Ukraine received support from the WB in its efforts to reform and restructure its energy sector through policy dialogue, technical assistance and financing of adjustment and investment projects since the early 1990s. The WB supported during 2007-2014 the implementation of the Ukrainian Energy Sector Reform and Development Program, particularly through investment lending. (Source: WB, Project appraisal document for the Power transmission project, 2007).

ENER/WAPP/REG #2 (2009-EIB-TA): The operation provided TA to a key regional organization, the West African Power Pool, inaugurated in 2006 as an all-inclusive organization of (public and private) electric power utilities based in ECOWAS member states. The TA led to an update of the Master Plan, which is a key planning tool providing long-term vision that is a crucial building stone for any electricity/energy policy at national and regional levels. (Source: project documents and interviews in Benin/Togo).

ENER/ERERA/REG #3 (2008-AFD-TA): The project is directly linked to observed institutional and regulatory changes: e.g. the set-up of the agency and the conduct of regulatory activities were at the heart of the project (see above indicators). However, the project was not so successful because ERERA could not act -as yet- as per mandate due to the unwillingness of the national authorities to involve ERERA. (Source: AFD HQ interviews, July 2015; Interviews in Benin/Togo).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): TA helped improve beneficiary capacity in terms of project management (financial management, oversight of construction activities, monitoring and evaluation, procurement, etc.) but was not focused on broader policy-related issues and as such has not contributed to observed policy changes. (Source: EIB Project progress reports, 2013 and 2014; Interviews in Egypt).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): The facility did not focus on policy reforms as such but still was an accelerator for the work of the ADEREE on the list of eligible measures and equipment as well as the list of eligible suppliers and installers which had been expected by the banks for years. (Source: EBRD HQ interviews, July 2015; interviews with EBRD and BMCE in Morocco).

Transport sector:

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): The project delivered a comprehensive multi-modal transport master plan, as envisaged in the design stage. The road subsector reform was initially designed and implemented in the late nineties with the assistance of the Swedish Government. (Source: Egis International, Integrated Transport Master Plan, 2014).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The project complemented other donor-related support to the transport reform process. The first Transport Sector Strategy was prepared with the assistance of the WB. The second one covering the period (2009-2020) has been elaborated by the assistance of the Asian Development Bank. The blended project focused on the improvement of the management of municipal transport services. The TA provided led to the introduction of a Public Service Contract (PSC) between Yerevan City and YMC setting out the parties' rights, responsibilities and financial obligations, including subsidies and maintenance support. (Sources: EBRD, TIMS review, 2013; ADB, Transport Sector Development Strategy for Armenia, 2009-2020, 2008; Interviews in Armenia).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): Reforms in the transport sector in Moldova have been strongly guided by the World Bank. The reform measures followed by the Government formed the background for the Institutional Support component of the WB project. The technical cooperation support provided by EBRD in addition to the investment was directly linked to policy changes (support to the introduction of a sound regulatory framework for public transport in Chisinau and for an e-ticketing system). During the project implementation period, policy changes linked to the project were modest due to delays faced by the project. (Sources: project documents, interviews in Moldova)

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The NIF contribution supported the second phase of the WB-led Moldovan Road Sector Program Support Project (RSPSP). As part of the project, reforms progressed well. The Government adopted in 2013 a Transport sector strategy, which includes the establishment of a reliable and stable financing mechanism for the road sector and an increased budget for road maintenance. The staff of the SRA was strengthened with consultants in procurement, financial management, environmental issues financed by the WB. Sources: project documents, interviews in Moldova)

Water and sanitation sector:

WASH/IWSP/EG #14 (2008-KfW-Grant): TA helped improve beneficiary capacity in terms of project management (financial management, oversight of construction activities, monitoring and

evaluation, procurement, etc.) but was not focused on broader policy-related issues and as such has not contributed to observed policy changes. Besides,
the project encountered the significant implementation delays due to the unstable political situation in Egypt. (Source: BCT Technology Enterprises GmbH, Mid-term review, 2014; Interviews in Egypt)

WASH/IWRM/CO #20 (2013-AFD-TA): The project (still ongoing) has contributed through TA to the implementation of Colombian water management public policies with a focus on innovation and knowledge, in particular through the pilot project in Tota which has been the first participatory exercise in the country on water management processes. Monitoring and implementation of the IWRM sector policy (in particular of the hydrologic plans) has been initially followed through the AFD budget support loan of 100m$ with the monitoring of five key indicators. Once these indicators were fulfilled, the TA financed from LAIF offered the AFD an entry point to pursue the technical dialogue with the Ministry of Environment and Sustainable Development. (Source: Interviews HQ AFD, July 2015; Informe de seguimiento, 2015; Interviews in Colombia with AFD and national and local counterparts)

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The TA has not focused on policy-related issues. It supported the ONEE in the execution of its tasks. (Source: Interviews with AFD and ONEE in Morocco).

6 EQ 6: Quality

To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?

Judgement Criteria	Indicators
6.1 Robust feasibility studies ensured identification of beneficiary needs plus potential economic, environmental and social impacts (and, where appropriate, mitigation measures)	1. Measures of EIRR and/or other measures of viability 2. Projects target the most vulnerable. 3. Baseline data has been collected 4. ESIAs prepared 5. Credible operations and business plans for the completed assets. 6. Degree of contribution of blending instruments to quality of feasibility studies
6.2 Detailed designs and specifications in accordance with international best practises produced practical, cost-effective, good quality outputs delivering specified and sustainable levels of service (including preparation of ESMPs)	1. Timely procurement processes followed national norms 2. Introduction of innovative practices/techniques 3. Technical and safety audits a part of the design process 4. Compliance with national regulation and international best practices 5. Degree of contribution of blending to quality of designs, specifications, ESIAs and ESMPs
6.3 Effective QA and QC measures undertaken during the course of construction	1. Technical and safety audits part of the construction process 2. Construction contracts not subject to cost and time over-runs or claims 3. ESMPs implemented 4. Performance monitoring framework in place 5. Degree of contribution of blending instruments to effectiveness
6.4 Measures put in place to ensure effective operation and maintenance	1. Partner government commitments scrutinised; contingencies identified 2. Assumptions and mitigation measures identified and validated 3. Reviews of institutional capacity and training needs assessments undertaken together with consideration of need for TA and implementation of training 4. Implementation of operations and business plans 5. Degree of contribution of blending instruments to effectiveness
6.5 Higher project quality can be attributed to blending	1. Comparison with similar projects funded by IFIs shows differences in quality 2. Actors involved confirm that quality would have been lower in the absence of the grant 3. Evidence of introduction of components contributing to project quality during selection of blended projects

6.1 Methodology, rationale and sources of information

Methodological approach	
1.	During the course of the desk phase projects were identified which are at various stages of development/implementation such that some relevant documentation was available relating to feasibility and viability, detailed design, QA/QC and O&M (and business plan). Only a few projects have been completed such that all issues can be evaluated for that project. Thus, projects were identified that demonstrate, as far as is possible, the sequential preparation and implementation stages for different countries and sectors.
2.	Feasibility studies were analysed (including identification of beneficiary needs, potential economic, environmental and social impacts, baseline data and risks. Robust feasibility studies are essential for identification of bankable projects in that the key value components should be identified, quantified and viability established at that stage.
3.	Designs, specifications, contract documents, proposed QA/QC procedures and procurement dossiers (and procurement procedures) were analysed as appropriate. Adequately detailed designs and specifications together with measures for quality control are a key requirement for delivery of the expected project benefit. Such design should also include any necessary mitigation measures (.. for resettlement, social and environmental impacts).
4.	For projects during or post construction implementation of QA/QC measures, contract management (including timeliness, cost) and mitigation measures were analysed.
5.	For project that have been delivered analysis of operational measures including operations, maintenance and business plans, government commitments, any institutional reform measures, training or TA and effectiveness of risk mitigation measures were analysed.
6.	The degree of contribution of Blending to 2, 3, 4 and 5 above has been assessed.
7.	Where possible 6 was checked against counterfactual examples (e.g. grant funded infrastructure projects)
8.	As well as analysis of documentation at all stages above interviews were carried out to confirm the perceptions of 'partners-in-blending' to seek triangulation of evidence in the various countries

Rationale for the EQ:

This EQ covers activities and processes including identification and feasibility studies (relevance), justification, design, identification of externalities (especially social and environmental issues) and potential risks, procurement, construction, quality control and commissioning of project outputs (efficiency and effectiveness). For decades conventional donor support consisted mainly of support to individual projects usually accompanied by institutional support, capacity building and technical assistance. Justification for investment was by calculation of EIRR based upon projections of usage accompanied by commitments to operation and maintenance of project deliverables. This approach has increasingly been found to be flawed. A combination of over-optimistic assumptions regarding feasibility, usage, economic rate of return, social benefits, operation and maintenance has produced some projects of doubtful viability and limited sustainability. Doubtful ownership accompanied by over-ambitious assumptions of institutional, financial and technical capacities led to unfulfilled commitments which in turn led to under-utilisation of project assets, unaffordability, maintenance neglect, operational inefficiency, premature deterioration and loss of serviceability. This EQ examines the evidence that blending has addressed some or all of these issues and added to the quality of loan and grant projects through ensuring greater rigour and due diligence, thus addressing, the issues noted above.

Information sources

In preparation of the responses to this evaluation question, whilst reference has been made to all 46 identified specimen projects, approximately 30% of this completed list (i.e. 15 projects) have been scrutinised in detail during the desk phase. Such scrutiny continued during the field phase as this selection attempts to identify a balanced cross section of projects representative of the various facilities, sector, budget and geographical spread for which adequate documentation appears to be available. Selected projects are listed below.

Project	Project Abbreviation	Facility	Title (data from CRIS exp. ITF)	Country
1	ENER/C.Intercon/NA-ZM #1	ITF	Caprivi Interconnector	Nambia, Zambia
2	ENER/WAPP/REG #2	ITF	Update of the WAPP Masterplan	Western Africa
4	TRANS/PortWalvis/NA #4	ITF	Expansion of Port of Walvis Bay	Namibia
5	TRANS/MasterPlan/NA-REG #5	ITF	Namibian Transport Master Plan	Namibia, South Africa, Botswana, Angola, Congo, the Democratic Republic of the Zambia, Zimbabwe
9	TRANS/MetroRehab/AM #9	NIF	AM-01 Yerevan Metro Rehabilitation	Armenia
14	WASH/IWSP/EG #14	NIF	EG-01 Improved Water and Wastewater Services Programme (IWSP) – NIF contribution	Egypt, Arab Rep.
15	ENER/O.SolarPlant/MA #15	NIF	Quarzazate Solar Plant – First Phase	Morocco
19	MULTI/SustDev/CO #19	LAIF	LAIF contribution to the project 'Towards a sustainable development of cities and regions in Colombia'	Colombia
20	WASH/IWRM/CO #20	LAIF	"Support to the Integrated Water Resources Management (IWRM) in Colombia"	Colombia
25	TRANS/Airport/MZ #25	ITF	Maputo International Airport	Regional - ITF
26	TRANS/Corridor/MZ #26	ITF	Beira Corridor	Regional – ITF
27	WAS/LVWATSAN/UG #27	ITF	Kampala Water – LVWATSAN	Regional - ITF
28	WASH/LVWATSAN/UG #28	ITF	Kampala Water – LVWATSAN	Regional - ITF
29	TRANS/RoadRehab/MD #29	NIF	MD-02 Modolva Road rehabilitation project	Moldova
32	ENER/WindFarm/EG #32	NIF	EG-02 200 MW Wind Farm in Gulf of El Zayt – NIF contribution	Egypt, Arab Rep.
39	WASH/IWSSLima/PE #39	LAIF	Expansion and improvement of water supply, sewage, wastewater treatment and reuse system in Lima Metropolitan Area.	Peru

Further projects have also been examined in less depth as 'supplementary' examples and sources for issues considered in JCs and Indicators.

Project	Project Abbreviation	Facility	Title (data from CRIS exp. ITF)	Country
6	COM/SubCable/SC-TZ #6	ITF	Seychelles Submarine Cable Project	Seychelles, Tanzania, United
7	COM/SubCable/MR #7	ITF	Mauritania Submarine Cable	Mauritania
11	WASH/IWSS/MD #11	NIF	EBRD-06 Feasibility Study for the improvement of Water and Sanitation Systems in Chisinau	Armenia
12	IND/SME Facility/REG #12	NIF	EBRD – 13 SME Facility – EBRD/KfW window	Regional - NIF
16	ENER/SudgELR/TJ #16	IFCA	Sugd Energy Loss Reduction	Tajikistan
18	TRANS/RuralRoad/SV #18	LAIF	LAIF contribution to the Rural Road Programme in El Salvador	El Salvador
21	WASH/IWSSI/GY #21	CIF	Water Supply and Sanitation Infrastructure Improvement Programme	Guyana
22	ENER/PowerUU/GY #22	CIF	Power Utility Upgrade Programme	Guyana

23	MULTI/UrbanTrans/BD #23	AIF	Dhakka Urban Transport	Bangladesh
24	WASH/ESWS-II/BD #24	AIF	Dhaka Environmentally Sustainable Water Supply Project II	Bangladesh
30	WASH/PNA-ONEP/MA #30	NIF	Phase I	Morocco
33	WASH/SMWP/AM #33	NIF	AM 02 – Armenian Small Municipalities Water Project	Armenia
34	OTHER/TAMunic/UA #34	NIF	EBRD-01 Technical Assistance Support for Ukranian Municipalities	Ukraine
35	ENER/SEFF/MA-JO #35	NIF	SEMED Regional Sustainable Energy Finance Facility: Phase I – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	Regional – NIF
37	WASH/TajikWR/TJ #37	IFCA	Central Tajik Water Rehabilitation Project	Tajikistan
38	WASH/WASH in LA/REG #38	LAIF	LAIF contribution to the Project 'Promoting climate change adaptation and integrated water resources management investment in the water and sanitation sector in Latin America in the framework of the Spanish Cooperation Fund for Water and Sanitation'	Regional – LAIF
40	ENER/Geothermal/DM #40	CIF	'Support to the development of Geothermal Energy'	Dominica

In addressing this EQ the varying nature of blending support (e.g. TA, Grant[48], IRS, Guarantee, DG) implies different considerations of the differing end products resulting from the blending support. For example TA may be supported to directly produce a master-plan[49], study or design[50] that may or may not be carried forward to construction/completion under the current blending support. Conversely the TA may be tasked with institutional support which is expected to facilitate subsequent consultancy services (and construction).[51] Assessment of project quality does not differentiate between directly supported and indirectly supported projects but attempts to cover as far as possible from available documentation, design and delivery of the intended end-product plus preparation for operation and maintenance of that end-product.

48 and 'TA + grant' combination

49 e.g. ENER/WAPP/REG #2; TRANS/MasterPlan/NA-REG #5

50 e.g. ENER/O.SolarPlant/MA #15; ENER/WindFarm/EG #32

51 e.g. MULTI/SustDev/CO #19

6.2 Evaluation question

Summary

- On the whole blending has delivered quality projects
- Robust feasibility studies have contributed to efficiency and effectiveness of implementation whilst ensuring relevance
- All projects scrutinised have been compliant with national regulations and legislation (environmental, land appropriation, resettlement, design standards etc) and national norms have been exceeded where national regulations and legislation have been below international standards.
- Detailed designs and specifications were prepared in accordance with international norms and have contributed to the efficiency and effectiveness of project implementation and operation
- Measures have been put in place to ensure adequate quality during the course of project implementation thus contributing to efficiency and effectiveness of implementation (and to operation of project outputs).
- Most projects have prepared operations and business plans which have contributed towards the operation and maintenance plans but in many cases the plans are based on untested assumptions that may be overly optimistic and effectiveness of such plans (and sustainability) is not proven.
- It is provisionally concluded that blending has indeed contributed to project quality in terms of relevance, efficiency and effectiveness

On the whole blending has delivered quality projects.

Robust feasibility studies have contributed to the relevance of projects and created conditions for efficient and effective implementation (JC 6.1)[52]

Feasibility studies and related analysis was carried out that was increasingly more detailed as the project developed from concept to final design, contract management and implementation. (e.g. TRANS/RoadRehab/MD #29; WASH/LVWATSAN/UG #27-28). Although feasibility and other studies usually identified risks the process was sometimes superficial with limited identification of mitigation measures. All blending projects supporting provision or upgrading of infrastructure calculated expected economic benefits (including economic and financial rates of return) as measures of viability but the assumptions upon which results and outcomes were based, were in some cases unduly optimistic (e.g. ENER/C.Intercon/NA-ZM #1).

Provision for the needs of the most vulnerable, if actually targeted at all, was indirect relying on an assumed 'trickle down' of benefits of (mainly) economic development goals (e.g. ENER/PowerUU/GY #22; COM/Subcable/SC-TZ #6; ENER/C.Intercon/NA-ZM #1; WASH/WASH in LA/REG #38). Base line data has been collected for monitoring of project progress and delivery of expected outputs and (to a lesser extent) outcomes, but doubts have been expressed about quality of data and national monitoring systems (e.g. TRANS/MetroRehab/AM #9). Environmental and social impact assessments and management plans have improved in quality over time (e.g. TRANS/MasterPlan/NA-REG #5; MULTI/SustDev/CO #19; WASH/WASH in LA/REG #38; WASH/LVWATSAN/UG #27-28 ; ENER/O.SolarPlant/MA #15; ENER/PowerUU/GY #22).

[52] Overall quality of evidence - more than satisfactory

Detailed designs and specifications in accordance with international norms have created favourable conditions for efficient and effective implementation (JC 6.2)[53]

All projects scrutinised (as regards design standards, specifications, procurement, contract management, QA/QC, environmental and social impact management) have been compliant with national regulations and legislation and, where national norms have been below international standards, international standards have been adopted (e.g. ENER/PowerTrans/EG #31; ENER/Geothermal/DM #40-TA; MULTI/UrbanTrans/BD #23). There has been some adoption of innovative structures and technology (but this has not included piloting of speculative untested technology) – quality has not been compromised (although some resultant delays have been recorded). (e.g. ENER/SEFF/MA-JO #35; TRANS/MetroRehab/MA #9; OTHER/TA Munic/UA #34; ENER/C.Intercon/NA-ZM #1; ENER/O.SolarPlant/MA #15).

All construction projects are subject to modification during the course of construction and blending projects are no excpetion, but there is only limited evidence of such modifications resulting from poor desing quality. Procurement has been subject to delays but no mis-procurement has been identified (e.g. TRANS/RoadRehab/MD #29; MULTI/SustDev/CO #19; TRANS/MetroRehab/MA #9) (indeed there is evidence of EU IFIs withdrawing from a project as a result of dispute over procurement process. (eg. TRANS/PortWalvis/NA #4). IFI insistence upon adoption and implementation of international standards, norms and best practice at all stages, has contributed significantly to the quality of blending projects.

Effective measures have been put in place to ensure adequate qulaity during the course of blending project implentation thus contributing to efficiency and effectiveness of implementation and to operation of project outputs (JC 6.3)[54] although no specific technical or safety audits have been carried out.

However, despite such supervision, cost and time over-runs have occurred and blending projects appear to be no more successful at avoiding such over-runs than projects funded by other modalities (or by other IFIs). (e.g. WASH/IWSP/EG #14; TRANS/RuralRoad/SU #18; OTHER/TA Munic/UA #34; WASH/TajikWR/TJ #37; ENER/C.Intercon/NA-ZM #1). Performance monitoring is in place for all projects scrutinised but there are exampled of such 'routines' not detailing developing problems especially as regards earlier blending projects (e.g. TRANS/Corridor/MZ #26). Only about one third of projects examined in detail have been completed and not all of these are into mature operation. Project completion reports are available for most completed projects but few ex-post evaluations have been examined (e.g. ENER/C.Intercon/NA-ZM #1).

Although 'due dilligence' has been applied to operations and maintenance plans for blending projects, effectiveness is not proven (JC 6.4)[55]**.**

O & M plans have been proposed to ensure effective operation and maintenance of completed infrastructure projects (e.g. TRANS/RoadRehab/MD #29; TRANS/MetroRehab/AM #9; COM/Subcable/MR #7; ENER/O.SolarPlant/MA #15; TRANS/RuralRoad/SV #18). These plans identify assumptions and risk of non-delivery of such assumptions and to address such shortcomings.

53 Overall quality of evidence : strong

54 Overall quality of evidence: more than satisfactory

55 Overall quality of evidence: more than satisfactory

However such assumptions are largely based on partner government commitments which have been taken at face value (despite a long history of limited delivery of such commitments in some sectors). The role of policy dialogue with partner governements/client is important regarding delivery of such commitments, but the IFIs are not well placed to participate in sych dialogue in countries where there is no IFI representation and in most cases there is no consideration of contingency measures or (post signature) conditionalities specified (e.g. WASH/TajikWR/TJ #37; ENER/C.Intercon/NA-ZM #1; TRANS/Corridor/MZ #26; COM/SubCable/MR #7; WASH/WASH in LA/REG #38).

High project quality can be attributed to blending (JC 6.5)[56].

Blending projects have offered high quality in terms of design specifications and standards, environmental and social impact analysis, QA and QC and implementation management. Such quality is a direct result of IFI insistence on adoption and application of international standards and norms. (e.g. ENER/O.WindFarm/EG #12; ENER/WAPP/REG #2; TRANS/MasterPlan/NA-REG #5; WASH/IWSP/EG #14; TRANS/Airport/MZ #25).

In comparison with some other modalities, blending has, on the whole, delivered better quality projects.

6.3 Judgement criteria

JC 6.1 Robust feasibility studies ensured identification of beneficiary needs plus potential economic, environmental and social impacts (and, where appropriate, mitigation measures)

Summary JC 6.1 Robust feasibility studies ensured identification of beneficiary needs plus potential economic, environmental and social impacts (and, where appropriate, mitigation measures)

- In many but not all cases, feasibility studies and related analysis was carried out that was increasingly more detailed as the project developed from concept to final design, contract management and completion.
- Although the feasibility and other studies usually identified risks, the process was sometimes superficial with limited identification of potential mitigation measures.
- All blending projects that supported provision of infrastructure calculated the expected economic benefits and EIRR (and/or FRR) as a measure of viability of the proposed investment
- Provision for the needs of the most vulnerable, was if actually so targeted indirect rather than specific and immediate relying on an assumed 'trickle down' of benefits of (mainly) economic development goals.
- All projects collected baseline data for monitoring of implementation progress and delivery of expected outputs and outcomes of the project although doubts have been expressed about quality of some national data and monitoring structures.
- Blending projects prepared environmental and social impact assessments and impact management plans which although they vary in quality, have improved over time and in most cases are in accordance with international norms.
- Blending projects have, at the insistence of IFIs consistently used international standards, norms and best practices at feasibility study, design and implementation phases (including ESIAs).

[56] Overall quality of evidence: more than satisfactory

In many but not all cases, the IFIs and their partners carried out feasibility and related analysis that was increasingly more detailed as the project developed from concept to final design to contract management and completion.

Project preparation has , in most cases, followed a clear, sequential series of steps and studies of increasing detail and level of accuracy (e.g. concept, pre-feasibility, feasibility, design of project programme as a whole), detailed design of individual components leading to contract documents together with monitoring of progress and eventual evaluation).[57] Application for IFI funding is usually made at an early stage with IFI decisions preceding the more detailed programme/project information becoming available. But this does not imply that IFIs are 'buying a pig in a poke'. (I-6.1.1)
Sources of information: *Project feasibility studies (for the sample projects*), project application forms, other project documentation, inventory information
Quality of evidence: more than satisfactory.

Although the feasibility and other studies usually identified risks, the process was sometimes superficial with little identification of potential mitigation measures.
A number of project monitoring and review reports note that although risks are identified they are not analysed in depth and the risk management and control mechanisms of some of the projects were not sufficiently well- designed to allow for timely corrective action[58]. An example is the ex-post evaluation of the NamPower Caprivi-link interconnector (CLI) Project (ENER/C.Intercon/NA-ZM #1) where it was noted that '…*risk management and control mechanisms were not sufficiently defined to allow for timely corrective action'* (Source: Ex-post evaluation of the NamPower Caprivi-link interconnector (CLI) Project AFD, Integration GmbH, April 2015. In some cases the assumptions made and quantification of risk in the feasibility and supportive studies were flawed but, although some identified risks were accompanied by mitigation measures, no such measures were identified in case of non-delivery of commitments by partner governments (e.g. TRANS/Rural Road/SV #18 – government commitment to adequate maintenance; default will only be apparent after completion of implementation of the blending project). Longer term delivery of partner government commitments (for maintenance and operation of infrastructure assets) for blending projects remains unproven despite assurances having been covered under IFI due diligence procedures.[59] (I-6.1.1, I-6.1.5)

Sources of information: *Project feasibility studies (for the sample projects) backed up by interviews with national partners,* project application forms, other project documentation, questionnaire.
Quality of evidence: More than satisfactory (I-6.1.1); Indicative but not constructive (I-61.1.5)

All blending projects that supported provision of infrastructure calculated the expected economic benefits and EIRR (and/or FRR) as a measure of viability of the proposed investment
Such calculations were based on assumptions of use of the infrastructure (e.g. traffic volumes, power generated) including the preparation of business plans and operating plans and/or

[57] Calculations of estimated financial and economic viability may be undertaken at various stages as detailed estimates are produced and refined; similarly ESIAs are usually prepared at feasibility stages sometimes refined at detailed design stage and refined, with implementation of ESMPs during implementation. However, there is little or no evidence of ex-post review of such studies to assess accuracy of calculations (or assumptions)

[58] e.g. ENER/C.Intercon/NA-ZM #1: Ex-post evaluation of the NamPower Caprivi-link interconnector (CLI) Project AFD, Integration GmbH, April 2015; TRANS/Corridor/ MZ #26: Implementation Completion and Results Report (IDA. 39910), Beira Railway Project WB, June 2013.

[59] There is a long history of non-delivery of such commitments for grant funded infrastructure provision.

contributory measures or commitments by the beneficiary institution or partner government (e.g. fare increases, policy change)[60]. (I-6.1.1)
Sources of information: *Project feasibility studies (for the sample projects*), project application forms, other project documentation, questionnaire, inventory information
Quality of evidence: More than satisfactory.

Provision for the needs of the most vulnerable, was if actually so targeted by the project indirect rather than specific and immediate relying on an assumed 'trickle down' of benefits (mainly) economic development goals.
Certain projects will more immediately impact on the vulnerable (e.g. WASH/LVWATSAN/UG #27-28, ENER/C.Intercon/NA-ZM #1, rural access) than others (e.g. Submarine cable). Even in the few projects where there has been specific targeting of the vulnerable, benefits have not always been delivered as intended[61] (although hopefully benefits are delayed rather than denied). (I-6.1.2)
Sources of information: *Project feasibility studies (for the sample projects*), project application forms, other project documentation, questionnaire, inventory information.
Quality of evidence: More than satisfactory.

All projects examined baseline data for monitoring of implementation progress and delivery of expected outputs and outcomes of the project.
Few projects have been completed and fewer still have reached maturity of operation. Thus although some Project Completion Reports are available few ex-post evaluations have yet been carried out and little longer term monitoring of outcomes or generation of impacts are yet available. Also, the quality and availability of statistical information is limited in many countries as is capacity for data collection and monitoring. There has been little consideration of mitigation measures to ensure the greatest possible quality of monitoring of the specified indicators. (I-6.1.3)
Sources of information: *Project feasibility studies (for the sample projects) with additional reference in interviews with* EUDs, project application forms, other project documentation, questionnaire.
Quality of evidence: Indicative but not conclusive.

Blending projects prepared environmental and social impact assessments and impact management plans which, although they vary in quality, have improved over time and in most cases are in accordance with international norms (although coverage of climate change issues is less certain) (e.g. TRANS/MasterPlan/NA-REG #5 – climate change resilience measures would be expected to be considered in the longer term perspectives of a transport sector master plan). (I-6.1.4)
Sources of information: *Project reporting, monitoring review and, where available, evaluation reports (for the sample projects),* project application forms, inventory information.
Quality of evidence: Strong

Blending projects have, at the insistence of IFIs consistently used international standards, norms and best practices at feasibility study, design and implementation phases (including ESIAs).
There is evidence to suggest that such practices and standards are higher in many cases than local national norms, practices or standards been adopted. It is thus concluded that blending has contributed to project quality (due to IFI strategies of use of such international standards). In many cases, such studies, designs, supervision services and technical assistance/institutional support were

[60] Relatively few completed blending projects have been subject to ex-post evaluation in which the assumptions/expectations, upon which were based measures of viability, were checked against actual ex-post situations.

[61] e.g. rural electrification component of ENER/C.Intercon/NA-ZM #1

grant-funded. It may thus be asserted that such grant funding has made a positive contribution to project quality (I-6.1.6)
Sources of information: *ESIAs/ESMPs (for the sample projects)*, project application forms, other project documentation, inventory information.
Quality of evidence: Indicative but not conclusive

JC 6.2 Detailed designs and specifications in accordance with international best practices provided practical, cost-effective, good quality outputs delivering specified and sustainable levels of service (including preparation of ESMPs).

Summary for JC 6.2 Detailed designs and specifications in accordance with international best practices provided practical, cost-effective, good quality outputs delivering specified and sustainable levels of service (including preparation of ESMPs).

- Designs and specifications for blending projects are in accordance with international practices.
- All blending projects examined have complied with national (and international) environmental licensing requirements (and land appropriation and resettlement regulations as required by IFIs).
- Procurement processes have followed international practices
- There is evidence of adoption of innovative structures and technology
- IFI insistence on application of international standards has ensured good quality blending projects.

Most, but not all designs and specifications for blending projects are in accordance with international practises (multiple examples – see I-6.2.3)**. Although specific technical (and safety) audits have not been documented** as such most, but not all designs and specifications for blending projects have been produced in accordance with international norms as have tender documents for construction and consultancy services during project implementation. Some modification of technical details is always found to be necessary during implementation and only limited evidence has suggested design quality issues as contributing significantly to such on-site modifications. Ironically an example of poor design quality leading to multiple quality and operational problems was a direct consequence of application of EU (D+3) procedure (i.e. WASH/IWSP/EG #14). (I-6.2.3)

Sources of information: *Detailed designs (for the sample projects),* project application forms, other project documentation, and inventory information.
Quality of evidence: Indicative, but not conclusive.

All blending projects examined have complied with national (and international) environmental licensing requirements (and land appropriation and resettlement regulations as required by IFIs).

National norms and compliance procedures have been exceeded in some cases due to adoption of IFI policies and standards which are in accordance with international norms. Safety issues also have been covered including H&S during the course of construction/implementation and subsequent operational safety (including road safety) (e.g. ENER/C.Intercon/NA-ZM #1; WASH/IWSP/EG #14). (I-6.2.4)

Sources of information: *ESIAs/ESMPs (for the sample projects) backed up by interviews with national partners and IFIs,* project application forms, other project documentation, inventory information, project monitoring reports.
Quality of evidence: Strong

Procurement processes have followed international practises albeit delays have been common (e.g. TRANS/RoadRehab/MD #29; MULTI/SustDev/CO #19) not least due to unfamiliarity of partner institutions with such practises, even where there has been provision of consultancy support to such procedures. No examples of mis-procurement or subversion of procurement process have been noted; indeed there are examples of EU IFIs withdrawing from a project due to disagreements about procurement processes (e.g. TRANS/PortWalvis/NA #4)[62] . (I-6.2.1)
Sources of information: *Procurement reports (including tender evaluation reports where available) for the sample projects,* project monitoring and review report, other project documentation (procurement reports).

Quality of evidence: Strong

There is evidence of adoption of innovative structures and technology with the risks of such adoption being clearly identified (albeit that some assumptions of subsequent performance are, as yet, unproven) (e.g. OTHER/TA Munic/UA #34; ENER/SolarPlant/MA #15; ENER/C.Intercon/NA-ZM #1). (I-6.2.2)
Sources of information: *Detailed designs,* project application forms, other project documentation, interviews with national partners.
Quality of evidence: More than satisfactory.

Most blending projects have been of good quality
IFI insistence on application of international standards has undoubtedly ensured better quality than use of less demanding standards but the assertion that blending has resulted in better quality than other financing modalities is equivocal. (I-6.2.5)

Sources of information: *Project monitoring and, where available, evaluation reports (for the sample projects),* project application forms, other project documentation (detailed designs), questionnaire, interviews with national partners and EUDs.
Quality of evidence: More than satisfactory.

[62] Albeit that such qualms about procurement process have not deterred another (non-EU) IFI picking up the project implementation

JC 6.3 Effective QA and QC measures undertaken during the course of construction

Summary for JC 6.3 Effective QA and QC measures undertaken during the course of construction

- Measures are in place to safeguard quality issues during the course of construction/implementation of blending projects (although no specific technical or safety audits have been carried out).
- However, despite such supervision, cost and time over-runs have occurred.
- ESIAs, ESMPs and, where appropriate, RAPs, have been produced for all blending projects.
- Performance monitoring is in place for all projects scrutinised.
- Overall, blending does contribute to the effectiveness of quality issues, including environmental and social issues

Measures are in place to safeguard quality issues during the course of construction/implementation of blending projects although there no evidence has been examined of specific technical or safety audits being undertaken.

Such measures cover not only quality of works and process but also safety issues including health and safety (workplace safety) for operatives and for third parties (e.g. travelling public passing along a road being rehabilitated). (I-6.3.1)
Sources of information: *Project monitoring and, where available, evaluation reports (for the sample projects)*
.
Quality of evidence: Indicative but not conclusive.

However, despite such supervision cost and time over-runs have occurred.
There are multiple reasons for such over-runs which are endemic in construction contracts worldwide (usually involving 'claims' for additional costs or time by the contractor). Blending projects are no different in this respect, with delays more common than cost over-runs, but the scale of such over-runs does not appear to be exceptional for blending projects compared with projects using other financing modalities (multiple examples – see I-6.3.2).
Sources of information: *Project monitoring reports (for the sample projects)*, interviews with national partners, EUDs and IFIs, questionnaire.
Quality of evidence: Strong.

ESIAs, ESMPs and, where appropriate, RAPs[63], have been produced for all blending projects sanctioned.

These studies and plans have all been prepared to international standards (in compliance with IFI policies) which are higher than some national legislation standards and implementation practises. To a lesser extent climate change response and resilience measures have been included. Although there are reports (supported by the evaluators experience) that ESMPs are not always taken seriously during the course of construction/implementation of development projects, evidence has been examined of mitigation and remedial measures in response to ongoing issues being taken during implementation of blending projects. (I-6.3.3)

[63] ESIA – Environmental and Social Impact Assessment
ESMP – Environmental and Social Management Plan
RAP – Resettlement Action Plan

Sources of information: *ESIAs/ESMPs (for the saemple projects),* project application forms, other project documentation (ESIAs/ESMPs), project monitoring reports, interviews with national partners and EUDs.

Quality of evidence: More than satisfactory.

Performance monitoring is in place for all projects scrutinised.
Regular reporting of progress takes place during the implementation/construction (e.g. monthly/quarterly reports of construction contracts), with monitoring missions by IFIs. Project Completion Reports are prepared. However, few projects have actually been completed and few ex-post evaluations are yet available.[64] Also there are some examples of developing project problems not being picked up by progress monitoring and as such remedial or mitigation measures not being addressed during project implementation (e.g. TRANS/Corridor/MZ #26; ENER/C.Intercon/NA-ZM #1). (I-6.3.4)
Sources of information: *Project monitoring and, where available, evaluation reports (for the sample projects)*
.
Quality of evidence: More than satisfactory.

Overall blending does contribute to the effectiveness of quality issues, especially as regards environmental and social issues.
During construction blending projects have demonstrated effective QA and QC measures compliant with international standards (and IFI procedures). Such rigour is similar to standards applied to recent international donor grant-funded development projects (I-6.3.5)
Sources of information: *Project monitoring and, where available, evaluation reports (for the sample projects),* other project documentation (detailed designs).
Quality of evidence: Indicative but not conclusive

JC 6.4 Measures put in place to ensure effective operation and maintenance

Summary for JC 6.4 Measures put in place to ensure effective operation and maintenance

- Operations and business plans have been prepared to ensure effective operation and maintenance of completed infrastructure assets. Blending projects scrutinised have undertaken measures of due diligence to identify assumptions, to recognise risks of non-delivery of such assumptions and to address such shortcomings during implementation of the project and subsequently
- The role of (policy) dialogue with partner governments/clients is often crucial for delivery of agreed commitments
- Projection of project outputs, outcome and impacts are sometimes too optimistic
- Although IFI 'due diligence' has been applied to operations and maintenance plans for blending projects, effectiveness of such plans is not proven

Operations and business plans have been prepared to ensure effective operation and maintenance of completed productive infrastructure assets. Blending projects scrutinised have undertaken measures of due diligence to identify assumptions, to recognise risks of non-delivery of such assumptions and to address such shortcomings during implementation of the project and subsequently (e.g. studies of institutional capacity leading to TA; capacity building, training or institutional support, preparation of business plans). Effective

[64] Such evaluations are programmed on a sample basis (i.e. not all projects) 2-3 years after project completion.

operation (including adequate maintenance) over the expected design life of infrastructure or productive facility together with expected usage or productivity were essential components in justification of investment and calculation of viability. Identification of such parameters and the ability of the project outputs to deliver expected performance were based upon assumptions. However there has been a tendency for over-optimism as regards such assumptions and expectations for project outcomes combined with under-estimation of the significance of identified risks[65]. (e.g. ENER/C.Intercom/NA-ZM #1; TRANS/Corridor/MZ #26)(I-6.4.2, I-6.4.3 & I-6.4.4)

Sources of information: *Feasibility studies including O&M plans (for the sample projects)* Project application forms, project monitoring and evaluation reports, questionnaire, other project documentation.

Quality of evidence: I-6.4.2 & I-6.4.3 Indicative but not conclusive; I-6.4.4: Strong.

In some cases commitments are given by partner governments/clients to subsequent actions which are agreed to be necessary for operation or longer term sustainability (e.g. institutional reform (e.g. COM/SubCable/MR #7 – creation of project company), policy change, implementation of an agreed strategy (e.g. axle load control), increased fares, tariffs or taxes [e.g. WASH/TajikWR/TJ #37 – cost recovery and debt reduction]).

However, partner government commitments (regarding operations and maintenance) have been largely taken at face value and in most cases no mitigation or contingency measures have been set out or conditionalities specified, even when there is an element of doubt based upon historical records of (non-)delivery[66] (I-6.4.1)

Sources of information: *Feasibility studies including O&M plans (for the sample projects) backed up by interviews with national project partners and EUDs,* project application forms, project review and evaluation reports, interviews with IFIs, questionnaire.

Quality of evidence: More than satisfactory.

The role of (policy) dialogue with partner governments/clients is often crucial for delivery of agreed commitments but although there are reference to such dialogue in project documentation scrutinised, it is not clear how periodic project monitoring missions by IFIs can effectively undertake such dialogue nor the role, if any of the EUD (as a permanent in-country representation of EU). (I-6.4.4)

Sources of information: *Interviews with national partners and EUDs* and IFIs, questionnaire.
Quality of evidence: Strong.

Although IFI 'due diligence' has been applied to operations and maintenance plans for blending projects effectiveness of such plans is not proven - a large majority of EUDs responding to the questionnaire assess the contribution of blending to such effectiveness as, at best, moderate. (I-6.4.5)

[65] Although such situations do not only apply to blending projects

[66] Other than certain commitments considered to be essential for viability being included as covenants to the financing agreements, compliance with which was a pre-condition for disbursement.

Sources of information: *Project review and, where available, evaluation reports backed up by interviews with national partners and EUDs,* project application forms, questionnaire, interviews with IFIs, other project documentation (O & M plans).
Quality of evidence: Indicative but not conclusive

JC 6.5 A higher project quality can be attributed to blending

Summary for JC 6.5 A higher project quality can be attributed to blending

- Blending projects have offered high quality in terms of design, environmental and social analysis, quality assurance and control and implementation management
- Such quality is a direct result of IFI insistence on adoption and implementation of international standards and norms.
- In comparison with some other modalities blending has on the whole delivered better quality projects.

There is no doubt that blending projects have offered high quality in terms of design, environmental and social analysis, quality assurance and control and implementation management, albeit that there are a few suggestions of over-optimism in assertion of project outcomes at feasibility stage and assessment of justification for investment.[67] (I-6.5.1)

Sources of information: *Feasibility studies (including ESIAs/ESMPs, project review and, where available, evaluation reports,* project application forms, interviews with national partners and EUDs, questionnaire, other project documentation.

Quality of evidence: More than satisfactory.

Such quality has arisen from insistence of IFIs in adoption and implementation of international standards and norms.

Although grants financed consultancy services to apply such standards the grant was merely a financing modality and such quality was not a direct result of the grant per se. (I-6.5.1)

Sources of information: *Interviews with national partners, EUDs and IFIs*, questionnaire.
Quality of evidence: More than satisfactory.

It is confirmed from a majority of country visits that in comparison with some other modalities blending has on the whole delivered better quality projects (although there is also evidence that recent projects undertaken by pure grant funding have also been in accordance with international standards) (I-6.5.2)

Sources of information: *Interviews with national partners, and EUDs,* interviews with IFIs, questionnaire.

Quality of evidence: More Indicative but not conclusive.

[67] There issues are examined in JCs 6.1, 6.2, 6.3 and 6.4.

Summary of the data collection process for EQ6

Hypothesis	Overall Assessment - Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages in the project cycle.	It is confirmed in a majority of countries visited that in comparison with other modalities that blending does deliver better quality.
In comparison to what other modalities (and why) does blending (not) deliver: ~ Greater sustainability ~ greater affordability (to beneficiaries) ~ better viability/rates of return(to IFIs) ~ better impacts (on poverty alleviation) ~ more focus on the needs of vulnerable groups	Confirmed in a majority of countries visited.
EUDs are (not) directly involved in all stages of the blending cycle.	There has been little involvement of EUDs in blending projects.
IFIS have (in) adequate resources for effective policy dialogue	Confirmed that IFIs have adequate resources for policy dialogue where the IFI has in country presence.
IFIs have (in) adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments)	Confirmed that IFIs have adequate protocols and procedures to ensure due diligence.
There are (in) consistent policies and quality requirements between different IFIs and the various EU investment facilities.	Confirmed that all IFIs have similar development policies and quality protocols.
That potential beneficiaries (i.e. partner governments and institutions and EUDs) do (not) understand the differences and potential benefits of blending in comparison to other financing modalities.	EUDs and most, but not all partner governments have a clear understanding of the differences between blending and other support modalities.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	Confirmed that IFIs have demonstrated application of remedial/mitigation measures during the course of implementation.

Assessment of quality of evidence per Indicator, JC and EQ – EQ 6 Quality

Quality of evidence by JC (aggregation from indicators)
Legend: 4: Strong
3: More than satisfactory
2: indicative but not conclusive
1: Weak

For each JC the following average scoring is proposed:
Strong >3
More than satisfactory 2<X<3
Indicative but not conclusive 1<X<2
Weak <1

	Rating	Comment
EQ6	2.72	More than satisfactory
JC 6.1 I-6.1.1 I-6.1.2 I-6.1.3	2.66 3 3 2	More than satisfactory

	Rating	Comment
I-6.1.4 I-6.1.5 I-6.1.6	 4 2 2	
JC 6.2	3.2	Strong
I-6.2.1 I-6.2.2 I-6.2.3 I-6.2.4 I-6.2.5	4 3 2 4 3	
JC 6.3	2.8	More than satisfactory
I-6.3.1 I-6.3.2 I-6.3.3 I-6.3.4 I-6.3.5	2 4 3 3 2	
JC 6.4	2.6	More than satisfactory
I-6.4.1 I-6.4.2 I-6.4.3 I-6.4.4 I-6.4.5 I-6.4.5	3 2 2 4 2 3	
JC 6.5	2.33	More than satisfactory
I-6.5.1 I-6.5.2 I-6.5.3	3 2 2	

6.4 Indicator analysis

JC 6.1 Robust feasibility studies ensured identification of beneficiary needs plus potential economic, environmental and social impacts (and, where appropriate, mitigation measures)

I-6.1.1 Measures of EIRR and/or other measures of viability (including risk strategies)

All blending projects examined (which involved support to provision of infrastructure and services)[68] calculated financial and economic rates of return on the proposed investment either as a measure of overall viability (e.g. TRANS/RoadRehab/MD #29 - grant) or in support of IRS (e.g. WASH/LVWATSAN/UG #27-28).

The economic rate of return was expected to be greater than a specified minimum value (e.g. 12% which is the convention EIRR threshold for road transport infrastructure investment). The financial rate of return was calculated in order to check if the project achieved terms compatible with the agreed debt strategy of the partner government and IMF for assumption of external debt.

[68] Some support involved TA support to studies or formulation of master plans (e.g. ENER/WAPP/REG #2; TRANS/MasterPlan/NA-REG #5) which did not involve specific EIRR calculation although such outputs did offer findings or viability and recommended investment needs.

However, such calculations are based upon assumptions including cost of the investment, usage of the infrastructure facility and/or services, operation and maintenance costs, contribution of secondary sources (third parties) to the overall performance of the finished product or delivery of commitments by partner government/institution.[69] Whilst most projects examined identified contributory factors that would affect the validity of the assumptions, the assumptions were in some cases, to a greater or lesser extent, (with the benefit of hindsight) found to be flawed, usually optimistically so. But only rarely were viability calculations revisited and revised once it had become apparent that the original estimation was optimistic. Few projects subjected the assumptions to assessment or quantification of risk[70] and did not identify suitable mitigation measures. In some cases it was possible to remedy the negative impacts of non-delivery of commitments or failed assumptions within a relatively short period (e.g. ENER/C.Intercon/NA-ZM #1)[71] But in other cases, this was not possible and there is a threat of long term default and project failure (e.g. TRANS/RoadRehab/MD #29 should commitments of adequate maintenance not be delivered) In the absence of identified mitigation measures it is not clear how the IFIs or cooperating partners can address threats to viability arising from non-delivery of commitments regarding operations and maintenance

The blending projects did not limit their analysis of viability to economic and financial considerations but also considered social and environment viability (e.g. MULTI/SustDev/CO #19) – urban and economic development and social inclusion; ENERGY/O.SolarPlant/MA #15 – renewable energy[72]).

I-6.1.2 Projects target (or make provision for) the most vulnerable

Most references to coverage of the needs of the vulnerable tend to be more generic than specific (e.g. ENER/PowerUU/GY #22[73], COM/SubCable/SC-TZ #6[74]) although some types of project more directly address the more vulnerable groups (e.g. WATSAN). In these cases there is rather more specific reference to affordability of tariffs or fares (e.g. TRANS/MetroRehab/AM #9)[75]. However, some projects explicitly target the vulnerable (e.g. TRANS/RuralRoad/SV [76]; ENER/C.Intercon/NA-ZM #1; WASH/WASH in LA/REG #38[77] whilst COM/SubCable/SC-TZ #6) exemplifies an innovative outcome of the grant component which financed the

69 e.g. to increase fares or tariffs; to restructure an institution or enterprise; to provide adequate maintenance funding; to amend or implement policies or strategies.

70 either probability of occurrence or impact of such an event

71 Repairs to the Zambian distribution network should enable usage of the Caprivi Interconnector to be greater than the initial 25% of expected levels. This problem with the Zambian network was not picked up in design studies or risk analysis – the network was simply assumed to be adequate to contribute to support project goals.

72 Although in the case of support to renewable energy and climate change resilience calculations are usually included in justification of support.

73 Close coordination and co-financing with the EU in the energy sector is expected to have a significant impact in both economic growth and improvement of social conditions, especially for vulnerable communities.

74 The ESIAF (ACP Investment Loan) notes that the impact (of a submarine cable) on vulnerable groups will be good…

75 Although in the case of this example fares were doubled anyway leading to immediately reduced numbers of travellers although this resulted in increased revenues.

76 Execution of works/mitigation measures that minimize the risks of localized populations in vulnerable areas, as a result of increased natural disasters to climate change.

77 The Caprivi Interconnector was planned to 'leverage' rural electrification in the Caprivi Strip but until distribution network problems on the Zambian side are resolved, there is not enough power (and thus generated revenues) available for such intended rural electrification.

government stake in the cable company such that the dividend yield from this investment is intended for social projects[78] (as well as mobilising private investment in the cable company).

However, most blending projects do not overtly target poverty reduction (and certainly not the poorest or most vulnerable groups) except by inference (rather than direct reference) to a 'trickle down' of benefits to economic and social development goals although some interventions (e.g. Egypt – IWSP interventions) are in rural areas which have higher concentration of the poor (and poorest services).

On a higher level the ENI strategic priorities 2014-2020 and IMP 2014.2017 make reference to *'….the needs of persons in vulnerable situations should be given more attention in future…'* and that there should be *'….some positive discrimination….in favour of individuals belonging to vulnerable groups in conflict regions/countries….'*

I-6.1.3 Baseline data has been collected (for subsequent M&E)

Most baseline data collected during the course of project preparation forms the basis for monitoring of progress of project implementation, usually undertaken by the lead IFI. Typically such IFI monitoring consists of periodic 'Project Progress Reports (PPRs)'[79], 'Project Completion Reports (PCRs)' and, less frequently, an ex-post evaluation.[80]

- Project Progress Reports typically cover all aspects of the project: operational information; cooperation with IFIs and EBFs; project details (coverage includes contribution to overall mandate objectives and priorities, quality and soundness of the project, IFI contribution): project analysis (status, procurement, social issues, environmental issues, project/counterpart visit, monitoring activities): contractual information: counterparts (borrower, final beneficiary details[81], guarantor details): compliance with contractual terms and conditions (see also reference to commitments under I-6.1.1); debt service; risks and monitoring actions (includes risks of production, borrower capacity, environmental and social, technology, remuneration, COI); project monitoring scoring; validation; annexes. However, despite such a framework for monitoring, some issues of concern are not identified (or at least not recognised as an issue which should be addressed during implementation) although most such issues are apparent by project completion and are documented in the PCR.[82]
- PCRs equally comprehensively cover project components; Reference Data; Value added summary: 1. Contribution to EU Objectives (economic and social cohesion/regional development; environment projects of common interest, human capital, mandates outside EU); 2. Quality and soundness of project (technical scope implementation, procurement, operation, environmental market demand, investment cost, project conditions, sector parameters); 3. Financial benefits obtained by use of IFI funds; Leasing.

78 e.g. high speed internet connections for student libraries.

79 Usually annually

80 Ex-post evaluations are carried out by some IFIs in accordance with an established procedural routine, on a sample basis but it is not clear if evaluations are also carried out in response to problems or issues of special interest.

81 ' Beneficiary' is identified as the beneficial institutional entity not the users of the services.

82 e.g. TRANS/MetroRehab/AM #9 – the belated discovery of asbestos in various control rooms and electrical installations (which surely shouldn't have been unexpected from experience of building rehabilitation in Armenia); Port Ponte Noire, Congo – pollution by hydrocarbons as a result of dredging was not foreseen in project preparation studies (no soundings were carried out at feasibility stage).

- Ex-post evaluation format is conventional (analytical project report, methodology and process of evaluation, performance (relevance, effectiveness, efficiency, impact, sustainability, financiers contributions), conclusions, lessons learned, recommendations or evaluation.

There is only limited evidence of longer term monitoring or evaluation of project results, outcomes or impacts compared with initial project assumptions[83]. Also, the availability (or even existence) and quality of baseline information and national stats is poor in many developing countries, whilst national capacities for monitoring and data collection is limited. Little reference has been made to such issues in blending project documentation, nor to measures to overcome such shortcomings.

I-6.1.4 ESIAs prepared (including provision of resilience against potential impacts of climate change)

Environmental and social impact assessments (ESIAs) were carried out for most, but not all, projects examined[84]. The coverage and quality of such reports varies and quality appears to have improved with the passage of time but overall quality was high.[85] Most such assessments were the basis for preparation of Environmental and Social Impact Management Plans (ESMPs) which were monitored during the course of construction[86] (see also I-6.3.3).

Reports and master plans produced as an outcome of TA support included good coverage of environmental and social issues although the degree of specificity obviously varied depending on the focus of the study (e.g. TRANS/MasterPlan/NA-REG #5 generically covered environmental and social issues for a transport network approach concentrating on initial cost/benefit analysis of various interventions whilst TRANS/Corridor/MZ #26 went into more detail for both rail and port components especially regarding the ESMP for dredging operations).

Some support projects, whilst making reference to environmental and social safeguards do not undertake detailed ESIAs or ESMPs at project preparation stage but it is expected that such issues would be addressed individually by sub-projects (e.g. MULTI/SustDev/CO #19).

Apart from support explicitly targeting climate change adaptation[87] coverage of contribution to climate change mitigation and/or adaptation is limited although reference to this issue is a requirement of the standard project submission form. Whilst a bland response may be considered acceptable at this stage for projects where climate change issues are less direct[88], other support

[83] Not all IFIs undertake ex-post evaluations as a routine procedure (e.g. KfW routinely undertake such evaluations typically 3-4 years after implementation/construction). EU almost never undertakes such ex-post evaluations (source: Evaluation of EU support to the Transport Sector in Africa 2005 – 2013).

[84] e.g. In Namibia LOHEPS and the Biomass & Solar Power Project Studies (both concerned with renewable energies) have both considered environmental issues whilst ITMP (TRANS/MasterPlan/NA-REG #5 and the subsequent Logistics Hub Master Plan) make only generic reference to environmental issues.

[85] And some such studies have been carried out some considerable time ago for projects which were then delayed (e.g. TRANS/RoadRehab/MD #29 – original implementation under WB funding stalled due to mis-procurement; TRANS/Corridor/MZ #26 – project twice restructured (at request of GoM). In such cases the original ESIA was updated to accommodate an evolving situation.

[86] The ex-post evaluation of Caprivi Interconnector noted that '*The project scores high on the control of socio-environmental impacts and risk mitigation, especially during construction. The due diligence procedures of the EMP have enabled NamPower to design and implement mitigation measures.*

[87] Only a single such project has been scrutinised in detail i.e. WASH/WASH in LA/REG #38– concentrating on WATSAN in 9 countries and South America, Brazil, Paraguay, Guatemala, Honduras, El Salvador, Ecuador, Nicaragua, Uruguay, Bolivia.

[88] E.g. MULTI/SustDev/CO #19 – '*...the programme....will help to increase sustainability, improve the environmental aspects of the projects, prioritisation of projects with high impact on climate change, determination of baseline and urban footprint studies'.*

projects make only limited reference to an issue of apparently real and immediate impact (e.g. TRANS/MasterPlan/NA-REG #5; WASH/LVWATSAN/UG #27-28).
In the case of electricity generation/supply projects reference is made to carbon emissions (e.g. ENER/PowerUU/GY #22 [89]; ENER/O.SolarPlant/MA #15 [90]) and in some project documentation estimates are made of potential reductions in emissions (e.g. ENER/O.SolarPlant/MA #15 – Quarzazate – 11000T CO2 equivalent per annum)

Overall the quality of coverage of environmental and social issues at project preparation stage is good and is in accordance with international norms (such international norms exceed national environmental legislation in many countries).

I-6.1.5 Credible operations and business plans for completed assets

All support projects developed operations plans in which project deliverables included infrastructure or provision of services. Such operations/business planes are intrinsic to estimates of EIRR (and FIRR) calculations and justification for IFI support and were based upon assumptions of anticipated usage of the infrastructure (e.g. TRANS/RoadRehab/MD #29 – traffic figures), revenues/cost accuracy (e.g. TRANS/MetroRehab/AM #9 – fare reviews) or output (e.g. ENER/WindFarm/EG #32 generation of electricity). But these assumptions are not always fulfilled (e.g. ENER/C.Intercom/NA-ZM #1 – under-utilisation of corridor) and there are reports of assessments of cost-recovery and budgetary sustainability being weak (e.g. Yerevan Metro Rehabilitation – TRANS/MetroRehab/AM #9).[91]

For some projects the beneficiary was expected to fulfil commitments (e.g. policy reform, restructuring, fare and tariff increases) whilst in other projects such commitments were identified as covenants and/or (pre-) conditions into the loan and/or facilitating grant funding in order to ensure implementation of specified reforms. Examples of operation and business plans for a sample of projects are set out below.

Project	Nature of support	Operation and business plan for completed assets
TRANS/RoadRehab/MD #29	Grant	Adoption of RSS; reform of road sector financing; competitive procurement[92]; institutional strengthening, restructuring of state-owned road maintenance enterprises.[93]
TRANS/MetroRehab/AM #9	Grant	Signature PSC; fare increases; IFRS reporting system; MIS; Corporate development/business plan.
COM/Subcable/MR #7	IRS	Open access; tariff changes
ENER/O.SolarPlant/MA #15	Grant	'Conventions (cache, tripartite specifique) between GoM and sector agencies PPAs (25 years), facility agreements.
OTHER/TA Munic/UA #34	TA	Restructuring of Lvivelectroraus CEO (Implementation of Corporate Development Plan).
ENER/PowerUU/GY #22	Grant	Implementation of ROPS (e.g. performance –driven contracts)

[89] *.reduction of electricity losses which translates directly into fewer emissions due to a more energy efficient distribution system'.*

[90] *' The main activity of the project is the production of power in concentrated solar thermal plant which therefore contributes 100% to climate change mitigation'.*

[91] Due to distribution network problems outside immediate project remit.

[92] An important point given that a previous attempt to launch this project was cancelled by WB on the grounds of mis-procurement.

[93] This project identified these as 'transition objectives'.

Project	Nature of support	Operation and business plan for completed assets
COM/SubCable/SC-TZ #6	DG	Open access and pricing principles
TRANS/RuralRoad/SV #18	TA	Maintenance plan on regular basis

Risks of non-delivery of operations and business plans are identified (seemingly more so for support projects identified as those which were unlikely to take place except as a result of blending e.g. TRANS/RoadRehab/MD #29) and considerable due diligence has been generally undertaken.[94] However mitigation measures have not generally been identified explicitly for key risks (especially as regards institutional change which always takes longer than expected) other than a statement such as '*Risks were mitigated through a strong conditionality package*'.

The history of traditional donor support programmes over the past decade or more clearly documents a widespread failure to deliver commitments by partner government and sector institutions.[95] Whilst it has been confirmed during the field phase that IFIs have adequate protocols and procedures to ensure due diligence, longer term delivery of partner government commitments regarding operations and maintenance of infrastructure assets is, as yet unproven (as few blending projects have been completed and/or been in operation for any length of time. It is thus not clear to what extent 'blending' may (or may not) be better placed to ensure (or facilitate) delivery of such commitments than earlier grant approaches as all projects rely on assumptions of delivery of such commitments[96].

I-6.1.6 Degree of contribution of blending instruments to quality of feasibility studies

All project submission forms have identified project-related parameters including how the IFI support is expected to improve project quality. Most such assertions refer to the project components (e.g. TA)[97] rather than added value accruing uniquely from the blending instrument itself. A survey of blending projects gives the following 'snap – shot'.

Project	Nature of support	Asserted contribution to improved project quality
MULTI/UrbanTrans /BD #23	Grant - TA	By providing TA and know-how to DTCA, AIF funding will help setting up and improving urban complex projects.
IND/SME Facility/REG #12	TA & Investment Grants	In the absence of the grant, the Finance Institutions would have very limited prospects to motivate financial intermediaries in EaP countries to start to increase their SME lending operations in the face of uncertain economic conditions and growing experience of non-performing loans to the SME segment. The grant component is necessary to give the

94 EBRD appears to be especially rigorous in this exercise.

95 E.g. Maintenance funding for roads remains seriously inadequate in most African countries despite government assurances to increase such funding. Periodic maintenance has ceased in some countries. Axle load control remains ineffective despite the highly deleterious effects of over loading being widely known. Donor-funded road projects are suffering premature deterioration, lack of serviceability and failure. Whole life costing of the infrastructure and vehicle operating costs are hugely increased with clearly negative impacts on development goals and transport costs are avoidably high.

96 Some blending projects have conditionalities for signature of the financing agreement (e.g. a tariff reform)but 'leverage' of such conditionalities ceases upon disbursement of financing. Longer term commitments continue to be based on an assumption that all project partners fulfil their contractual commitments.

97 Which could result from any form of support (e.g. EDF grant, loan)

Project	Nature of support	Asserted contribution to improved project quality
		financial intermediaries the confidence to commence lending at scale to this segment in the crisis recovery context.
ENER/SEFF/MA-JO #35	TA & Loans	The Technical Assistance financed by the EU grant will improve the quality by addressing specific barriers to financing projects developed by sub-borrowers, especially SMEs, such as lack of information on available technologies, lack of energy management skills and planning capabilities and lack of capacity for project development and implementation. The Technical Assistance financed by the EU grant will also be used for capacity building of PFI staff with the aim to highlight areas of energy efficiency which are often overlooked in the PFIs' appraisal projects.
Namibia Business and Concentrated Solar Power Feasibility Studies	TA	With the support of EIB, KfW and AFD in drafting the ToR and guiding NamPower in the preparation of the projects, the TA will ensure that the highest standards and best available technology is used. Thereby ensuring that the project documentation meets the exacting standards that the IFIs require in order to subsequently fund the project(s).
WASH/KotaykSW/AM #13	Loan – works (landfill), institutional change and CB equipment	Local governments in Armenia lack budget resources and/or access to commercial bank financing to fund capital infrastructure improvements It is unlikely that the project could be undertaken without IFI and donor support for preparation and implementation. The institutional development, components and transition objectives of the Project are further evidence of the additionality to be achieved, as these types of improvements are unlikely to be undertaken in Armenia without IFI and donor involvement.
ENER/O.SolarPlant/MA #15	Investment grant	The NIF subvention will contribute to the climate change mitigation (including via the transfer of technologies related to new energy sources) through foreign direct investment that contributes to promoting technology and knowledge transfer.
WASH/PNA-ONEP/MA #30	TA & Grant	L'apport de la FIV permettra d'ameliorer la pérennité des infrastructures du projet en permettant un renforcement de capcité de l'ONEP sur des aspects clefs comme les boues. Les techniques d'épuration mais aussi la création d'un contexte institutionnel plus favorable via l'implication du ministére dans les aspects de financement du secteur et de réglemtation (boues, réutilisation….)
ENER/PowerTrans/EG #31	TA & Investment grant	The NIF financial contribution for technical assistance will provide the promoter access to international and IFI-experienced experts, providing best-practice capacity building and helping to ensure an efficient and transparent implementation of the project by the Egyptian promoter.
ENER/PowerUU/GY #22	Investment grant	In the context of fiscal restrictions, the grant allows for a massive intervention, resulting in an accelerated impact and more efficient implementation of infrastructure solution. The grant will facilitate the implementation of new standards in the design and rehabilitation of the distribution network, improving local capacities in order to replicate the higher standards in future projects and consolidating planning and design best practices. The new high standards in the design of the distribution networks will result in a higher quality and more reliable system, also improving safety for customers and utility operators. The

Project	Nature of support	Asserted contribution to improved project quality
		implementation of high quality distribution network will reduce operational and maintenance costs, freeing resources for other important investments.

Other than from asserted quality enhancement expected to accrue from project-supplied TA (and technology transfer/capacity building) there has been an inferred (rather than directly stated) assertion in a minority of projects examined that blending has permitted the go ahead of projects which might otherwise not have taken place (i.e. IND/SME Facility/REG #12; WASH/KotaykSW/AM #13).

But there are examples of shortcomings in feasibility studies e.g. Congo – Port Ponte Noire

- Pollution problems caused by dredging causing hydrocarbon pollution in the post and along the coast – this was not foreseen in feasibility studies.
- Weaknesses highlighted in beneficiary capacity for maintenance of equipment (lack of materials and resources) but no evidence of mitigation measures.
- Extension of the container terminal has seen decreases in other activities due to limited space – this negative impact was not foreseen in feasibility studies (although this is not to say that positive benefits have not been realised such as increased container traffic, job creation and possible decrease in tariffs (due to increased traffic)

JC 6.2 Detailed designs and specifications in accordance with international best practices provided practical, cost-effective, good quality outputs delivering specified and sustainable levels of service (including preparation of ESMPs).

I-6.2.1. Timely procurement processes rigorously followed national norms (procurement audit reports)

Capacity of partner institutions of blending projects has often been recognised as weak (albeit the degree of such weakness was sometimes under-estimated). Thus a component of project design is support to procurement processes (and project implementation) by provision of TA, sometimes in assistance to a specific PIU/PMU. As regards procurement such TA support has usually included preparation of contract/procurement documents (in accordance with specified EU and IFI procurement norms) and advice on procedures and tender evaluation (e.g. OTHER/TA Munic/UA #34).

However, procurement processes have not always been speedy with delays having been registered in several projects examined[98] (e.g. TRANS/RoadRehab/MD #29[99]; MULTI/SustDev/CO #19[100]) extreme examples being the failure of the tender (i.e. no bidders) for one component of TRANS/MetroRehab/AM #9 – track improvements[101] and Expansion of Walvis Bay Container Port – TRANS/PortWalvis/NA #4 where the originally identified IFIs withdrew after

[98] Although on the contrary major procurement for some projects was satisfactory (e.g. ENER/WindFarm/EG; ENER/O.SolarPlant/MA #15)

[99] A previous launch of this project was cancelled by WB due to mis-procurement

[100] The 1st Annual Implementation Report notes '*...Given that every step of the procurement process has to pass through multi-party review as per SADAPAL's procedures....the procurement process is quite slow*'.

[101] The tender requirements were subsequently modified to attract bidders.

disagreement on procurement processes for contractor selection[102] . Timeliness is not, however, the only measure of procurement efficiency and effectiveness. TRANS/Corridor/MZ #26 presenting a salutary case study[103] in which '…..*few bidders expressed interest (i.e. as rail commissionaire) …and all the short listed companies had limited experience in private sector construction, operation and management of rail systems. The consortium which went to win the Concession…had no previous experience of actually running successful rail operations'.*[104]

Finally no projects were examined in which procurement audits have been carried out. However, experience of procurement processes, regardless of funding modality, is that delays do occur especially when the administrative entities are unfamiliar with international procurement norms acceptable to IFIs and EU. Overall, procurement processes examined were sound.

I-6.2.2 Innovative practises/techniques have been introduces where appropriate

A number of projects have claimed at identification stage to 'stimulate innovation'[105] (e.g. ENER/SEFF/MA – JO #35; TRANS/MetroRehab/AM #9) whilst other projects have claimed to have been instrumental in introduction of innovations[106] (e.g. OTHER/TA Munic/UA #34 – tarrification, waste biomass; ENER/O.SolarPlant/MA #15– alignment of public and private objectives (MASEN as equity investor and power purchaser) and choice of CSP (Concentrated Solar Power)[107]; MULTI/SustDev/CO #19 – design and development of innovative financial structures and instruments to promote investment in climate change mitigation and risk management; Namibia Biomass and Concentrated Solar Power – viable biomass/CSP hybrid plants).

Another example of actual innovation is the Capri Interconnector (Namibia) NER/C.Intercon/NA-ZM #1 which uses technology for the first time (i.e. 350 kv HVDC light) for overhead transmission. Other examples include the application of environmental mitigation measures to EU standards in Power Transmission project which are a 'first' in Georgia (and innovative in that sense). The financial modal underpinning the Batumi Water Project is also innovative.

Overall it can be concluded that blending projects have, in some cases, taken the risk of introducing innovative procedures and supporting potentially viable technologies which continue to be refined.[108] Such support was intended to be demonstrative promoting wider scale adoption and involvement of commercial lenders for subsequent development (although it is too early to conclude whether or not such general uptake will actually take place). There is an example of

[102] A grant-funded (AITF) economic market and financial feasibility study for strategic expansion gave options for viable port expansion and financing partners included KfW (lead), AFD, EIB, DBSA and JICA. AfDB stepped in after withdrawal of the original IFIs due to disagreement over contractor selection i.e. a single (Chinese) contractor was pre-qualified which thus implied a direct award of contract.

[103] The rail component of this project unfortunately (provides similar) lessons on many aspects of project preparation, design, institutional and management issues, supervision and implementation.

[104] WB Implementation Completion and Results Report 2012

[105] Sometimes without such further elaboration in project documentation.

[106] Although the claim that COM/Subcable/MR #6 will 'enable the development of innovative services in the areas of healthcare and education' (ESIAF, ACP Annex 2) seems somewhat tenuous.

[107] *.'despite its long history of projects and trials CSP remains in its early stages of development and is still not commercially viable'.* San Giorgio Group Case Study Quarzazate CSP, CPI, 2012. NIF support, in conformity with NIF strategic orientations is *supporting a higher risk activity for increasing renewable energy production which at present would be impossible to finance via private financing in Morocco'.*

[108] i.e. these are not first pilots of untested technology but rather introduction of a technology or process into a country or sector where it has not been used previously.

commercial uptake of power generation by wind turbines in Egypt, following successful 'blending' and other IFI – financed projects and 'buy in' tariff reform.[109]

I-6.2.3 Technical and safety audits are integral part of the design process

Technical and safety audits are a conventional component of design processes. However no such audits are explicitly documented in any of the projects scrutinised. But that is not to suggest that technical and safety issues have not been carefully considered as international standards and norms have been consistently applied. All projects have made reference to such issues (safety often being considered as a component of the ESIA and ESMP) of which there are various examples.

Project Stage	Consideration	Examples
Design Stage	Adequate coverage of technical and safety issues in design documents	• WASH/WASH in LA/REG #38 – adaptation of sectoral policies and specific technical guides • ENER/O.SolarPlant/MA #15 – close examination of CSP Technology • ENER/WindFarm/EG #32 – examination of technical details of project proposals • MULTI/SustDev/CO #19 – technical support in pre-investment phases
Construction/provision of infrastructure	H&S during construction - workers[110] - third parties Technical issues arising	• WASH/KotaykSW/AM #13 – H&S policy and plan • MULTI/SustDev/CO #19 – technical support in execution phase
Operation of infrastructure/service	H&S during operation - users of infrastructure/services - operators Technical issues arising	• TRANS/MetroRehab/AM #9 – operational safety; passenger safety; fire and asbestos safety • WASH/KotaykSW/AM #13 – promotion of occupational health; H&S Policy and Plan • TRANS/RuralRoad/SV #18 – Reinforcement of road safety programme • MULTI/UrbanTrans/BD #23 – capacity building including measures for road and pedestrian safety

The most common example of such audits concerns road safety. An immediate result of most projects supporting road rehabilitation is increased vehicle speeds usually resulting in more accidents. Measures to restrain traffic to safer speeds, physical mitigation by means of alignment, warning signs and clearer junction layout are usually implemented. Complementary measures involving enforcement of traffic regulations, including axle load control which have an immediate impact on road safety, are not usually effectively enforced.

An example of design shortcoming was documented on IWSP (Egypt) WASH/IWSP/EG #14. The accelerated programme which was needed due to the D+3 rule resulted in poor designs and construction quality as well as heavy cost over-runs. O & M is thus vulnerable due to the poor

[109] Although the longer term viability of such tariff structures is not guaranteed given the volatility of energy prices world-wide (especially low oil costs).

[110] of all projects scrutinised a single fatality was recorded during the construction of ENER/Cintercon/NA-ZM.

quality of works (and slow progress on tariff reform). In turn this has led to programme implementation delays (only 20% of planned investments completed to date).

In essence there has on the whole, been adequate coverage of technical and safety issues during the design phase even though no evidence has been examined of specific technical and safety audits having been carried out.

I-6.2.4 Compliance with national environmental regulation and licensing requirements and international best practises

There has been strong compliance, not only with national environmental licensing requirements and regulations but also with specified EU and IFI policies where it was considered that national environmental requirements were deficient or non-compliant with international norms.

Only limited reporting of implementation of ESMPs has been scrutinised (and superficial implementation of ESMPs during construction is an issue on many contracts regardless of financing modality) but no serious non-conformities have been noted.

Examples include:

- ENER/C.Intercon/NA-ZM #1: PCR 2012 – 'final compliance audit of EPM concluded that implementation of the EMP was satisfactory'
- TRANS/RoadRehab/MD #29 – social assessment report, ESIA and ESMP prepared[111]
- WASH/IWSP/EG #14 – IWSG Study Report 2007 – '….*the programme as a whole can be rated as an undertaking that improves the environmental conditions in the medium and long term perspective without and controversial negative impacts'*.
- TRANS/MetroRehab/AM #9 – Environmental and Social Action Plan 2010 (including removal of asbestos in sub-stations).
- ENER/O.SolarPlant/MA #15 – FESIA prepared by promoter; EIA and EIS prepared by bidder. Other ESIAs undertaken for transmission lines, water supply. Clearance by EIB as conditionality for disbursement.
- TRANS/Corridor/MZ #26: Rail component – EAMP and RAP prepared and implemented[112]; Port component – implementation of an EMP included in the SES was a part of EIB loan conditions.[113]

Environmental and social due diligence has been a strong point of blending projects examined.

I-6.2.5 Degree of contribution of blending instruments to quality of designs, specifications, ESIAs and ESMPs

Little evidence has been examined of assertions that enhanced quality results from the blending instruments per se but there are multiple references to the project components assuring quality (e.g. ENER/PowerTrans/EG #31) – environmental performance enhancement by TA; ENER/Geothermal/DM #40 – TA grant to support Plan to improve project quality; MULTI/UrbanTrans/BD #23 – improved project quality of capacity building, TA and provision of know-how to DTCA; ENER/PowerTrans/EG #31 – provision of TA providing the promoter

111 Albeit that these were prepared over a decade earlier for the EB-financial road rehabilitation project cancelled due to mis-procurement.

112 Although a similar project in EU would likely fall under Annex VI of the EIA Directive on the basis that the line has been closed for so long that its reopening may constitute a material change to the environmental situation.

113 Mainly due to the dumping of some 8M cum of dredged material

access to international and IFI – experienced experts, providing best practise CB and helping to ensure efficient and transparent implementation of the project; ENER/O.SolarPlant/MA #15 – NIF subvention will contribute to climate change mitigation (including transfer of technology related to new energy sources).

Most projects assert that project outputs and outcomes will result in (or at least, contribute to) better quality services (e.g. COM/SubCable/SC-TZ #6 – improved international transmission infrastructure in-country enabling high quality services and social benefits; COM/SubCable/MR #7– increased availability, quality and affordability of internet; OTHER/TA Munic/UA #34 – higher quality service for users; ENER/PowerUU/GY #22 – high quality system and distribution network; WASH/TajikWR/TJ #37 – improved quality and reliability of water supply and waste water services) but some concern has been expressed about unduly optimistic assumptions[114].

However, for some projects, expected quality has not been achieved, nor were cumulative deficits identified during monitoring of implementation[115] (e.g. TRANS/Corridor/MZ #26: EU/AITDF Application for IRS 2008 – *proposed instruments sound and of high quality; overall implementation performance to date in terms of delivery, quality has been good; CC FB…..procurement procedures…..ensure an appropriate quality.'* All these assertions (and more) were refuted by the Implementation Completion and Results Report, WB, 2012).

Overall it is concluded that most blending projects have been of good quality as regards design, specifications and consideration of environmental and social issues. This conclusion is supported by 89% of questionnaire respondent EUDs considering that design was robust to a moderate or high degree, albeit 86% considering that this design has not led at all or only to a moderate extent to a sustainable and cost-effective project. However the extent to which the specific contribution of blending[116] to better quality than has been or would have been achieved by other financing modalities is equivocal, although the insistence of IFIs on the application of international norms and best practices has undoubtedly ensured better quality products than the use of less demanding standards (see also JC 6.5).

JC 6.3 Effective QA and QC measures undertaken during the course of construction

I-6.3.1 Technical and safety audits an integral part of the construction process

No reports have been examined of specific technical and safety audits undertaken during the course of the construction/project implementation process. However, this is not to suggest that supervision and monitoring of implementation progress have been neglected. On the contrary all projects which are being implemented or have completed construction/implementation have been subject to on-site supervision of construction and certification of payment of quantities of work in accordance with specifications, engineering drawings and contract documents and supervision procedures have been compliant with international practises and standards.

[114] Which are characteristic of many development projects (not only blending projects) e.g. Caprivi Interconnector (ENER/C.Intercon/NA-ZM #1) for which the post evaluation of Caprivi Interconnector noted that *'The project scores high on the control of socio-environmental impacts and risk mitigation, especially drawing construction. The due diligence procedure of the EMP have enable NamPower to design and implement mitigation measures'*. This project was however, subject to over-optimistic assumptions regarding outcomes for economic and social development, improvements in living conditions and on access to electricity in rural areas. All outcomes were due to less than expected utilisation of the interconnector, in large part due to assumptions of performance of linked distribution networks in Zimbabwe and, especially in Zambia.

[115] This issue is examined also under JC6.3

[116] Arguably more accurately stated as the difference made by application of IFI policies

Similarly such supervision has covered safety issues.[117] The Environmental and Social Impact Management Plan (ESMP) has usually covered such safety issues (see I-6.3.3) although safe working practises should be a routine consideration for any proficient contractor.

Progress reporting has been undertaken at specified intervals during the construction period and regular monitoring has been carried out by or on behalf of the IFI (e.g. EBRD annual monitoring; NIF annual progress reports; LAIF reports on Implementation Agreements) – see also I-6.3.4.

Whilst the level of supervision and monitoring of blending projects has, in the experience of the evaluator, been similar to that of grant-funded support (e.g. EDF or WB) it has certainly been superior to many nationally implemented projects.

I-6.3.2 Construction contracts not subject to cost and time over-runs or high value claims

Construction contracts worldwide are prone to cost and time over-runs and claims. Contributory factors include poor design (and site investigation), inadequate specifications, flawed procurement processes resulting in selection of an unrealistic tender or incompetent contractor, weak supervision and quality control and predatory pricing by a contractor experienced in claims[118] (especially when supervision is less contractually savvy).
In scrutiny of blending projects, there are multiple examples of delays for various reasons as noted below.

Project	Contractual issue	Reason	Comments
WASH/IWSP/EG #14	▪ Tender delays (see also I-6.2.1) ▪ Design delays ▪ Delivery schedule delays	▪ HCWW administration ▪ Initial under-estimate of rehabilitation needs (Abassa & Zagazig WTPs) ▪ Delays in payment process	▪ Evaluation of tenders taking 25-40 days instead of specified 10 days. PIU requires approval from AC BOD. ▪ Consultant prepared PDR. ▪ Delayed disbursement request procedure (ADF & KfW)
TRANS/RuralRoad/SV #18	Delayed start to implementation	Slow decision making of GOES due to elections.	Delayed approval of budgetary reinforcement of MOPTVDU.
OTHER/TA Munic/UA #34	▪ Delayed project implementation ▪ Delayed selection of consultant ▪ Delayed budget fund appropriations ▪ Delayed transfer of local contribution	▪ Changes in management of LET ▪ Technical complexity ▪ Poor consultant performance ▪ Deterioration of economic and political situation	▪ Delays overcome with support of LvivAvtador management ▪ EIB extension to loan financing availability date.

[117] 'Safety' in this context is taken to include H&S in working practises during implementation and safety of third parties. Operational safety (including road safety) is discussed under JC 6.4.

[118] Poor project preparation including mis-estimation of quantities assists such claims - related bidding strategy and subsequent contract management by contractors

Project	Contractual issue	Reason	Comments
WASH/TajikWR/TJ #37	Delayed project start up and implementation ~18 months overall	▪ Selection GDP consultant ▪ Delayed development of PSCs and implementation of regionalisation	Due dates of covenants amended
TRANS/MetroRehab/AM #9	Overall delay ~6 months	▪ Failed tender ▪ Delays in institutional restructuring	▪ Subsequent re-tendered ▪ Loss of documentation in breakup of Soviet Union
WASH/WASH in LA/REG #38	Delayed launch of procurement procedures for analysis and studies	Multiple project partners	
ENER/PowerUU/GY #22	▪ Procurement delay of 6 months ▪ Delayed implementation	▪ E.g. Transmission line poles ▪ Shortage of cement (New Sophia and Good Hope sub-stations)	Guyana has suffered such shortages of construction materials for years.
TRANS/Corridor/MZ #26	Port component ▪ Delayed commissioning of dredger Railway component ▪ Implementation delay (i.e. rehabilitation of Sena Line) expected to take 4 years but was delayed by more than 2 years.	▪ CFM procedures and capacity ▪ Low quality of CCFB	Technical issues remain posing risk to operational safety and ability to handle required traffic volumes on Sena Line Machipanda Line left to deteriorate further instead of being rehabilitated.
WASH/IWSS/MD #11	Payment delays	Delays in approving and implementing agreed tariff increases	NIF financial development of Financial Improvement Action Plan (FIAP)
ENER/C.Intercon/NA-ZM #1	Delayed implementation	▪ Design more complicated than expected ▪ Delay (2 months) at commissioning stage	▪ Testing mistake by main contractor which damaged equipment.

The Evaluation of WBIF, 2015 gives a broad over-view of reasons for delays in project implementation

- delayed TA assignment due to uneven volumes of approved grants and unexpected delays in deployment
- in multi-country projects due to changed priorities in countries
- delayed investment in environmental and social quality (i.e. failure to comply with EU standards) due to national economic stress

- delayed production of technical designs by partner governments thus delaying loan disbursements
- delayed communications
- delayed resolution issues formulation of political and institutional issues
- legal interpretation of rules under new Financial Regulation of EU

To a lesser extent projects have suffered from claims and cost over-runs as exemplified below.

Project	Contractual issue	Reason	Comments
TRANS/Corridor/MZ #26	Railway component Cost over-run of >USD50M (Sena Line rehabilitation)	Incompetence of Concessionaire	Disputes over construction phase, incomplete construction. poor quality, H&S issues and poor labour relations.
TRANS/RoadRehab/MD #29	Cost increase ~15%	▪ Scope of bridge repairs higher than expected ▪ Price adjustments ▪ Significant variations in quantities for milling of asphalt and pavement layers	Estimation of quantities for a road rehabilitation project is tricky in that the infrastructure continues to deteriorate but at a non-linear rate. Timing of interventions is critical to an estimation of necessary quantities and scope of works at that point. Unexpected delays will almost certainly mean that quantities will be under estimated.
ENER/WindFarm/EG #32	Claims for time extension for all Lots Variation Orders for all lots.	▪ Claims – time-related changes, delayed customs clearance and for switchgear, delayed payments, variation of price, mistake in quantities, soil replacement ▪ VOs – procurement of radar-based monitoring system, spares for turbines, extended topographical survey, switch gear, breakers, outdoor kiosks, 2nd feeders to substation.	Additional costs expected to be with contingency allowances.
TRANS/MetroRehab/AM #9	Various 'change proposals' for Lot 3, N.B: Cost savings for Lots 4, 6 & 7 were subject to EBRD/EIB no objection for proposed re-allocation,	Renewal of power cables from sub-stations to metro grid system.	Time extension 6 months Additional cost €204000 (from total contingency of €205000)

With the exception of the Beira Corridor project (TRANS/Corridor/MZ #26 Rail component – Sena Line) the number, scale and nature of time over-runs of blending projects scrutinised is comparable to what would normally be expected for construction and development projects

undertaken in such countries using other financing modalities (including 'historical' grant funding and some privately-developed investments). However, the scale of cost over-run and quantities of claims is probably less than would normally be expected in recent years.[119] Further comparative study is necessary during the field phase.

I-6.3.3. ESMPs (including security, safety, relocation, changes in habitat, expropriation, health) implemented during the course of construction

ESIAs[120] in accordance with international best practices and IFI policies have been undertaken and ESMPs have been prepared for all blending projects scrutinised. [121] During construction/implementation ESMPs have been implemented and this implementation has been monitored as a component of site supervision. IFI procedures require all ESIAs, ESMPs and Resettlement Action Plans (RAPs) to be prepared as a component of risk assessment and in some projects, as a pre-condition to disbursement (e.g. WASH/ESWS-II/BD #24; MULTI/UrbanTrans/BD #23; ENER/PowerTrans/EG #31 – for this project mitigation measures include line re-routing, construction methodologies, visual impact mapping, structural amendments and devices to avoid avifauna collision; WASH/IWSS/GY #21 ; TRANS/MetroRehab/AM #9).

Most such studies made reference to the contribution of project activities to durable change mitigation or adaptation.[122] However, it is noted that the requirements of IFIs *'can be contradictory and may result in confusion'* and that *'specific requirements of each IFI cannot reasonably be incorporated into an ESMP'* [123] . Where national licensing requirements are less demanding than EU or other international standards, international standards are applied.[124]

The rigour of implementation of ESMPs has been further examined (during the field phase) because there is some evidence that *'Environmental and social safeguards were not taken seriously – ESIAs were undertaken simply to 'tick the box' of support conditions whilst ESMPs were marginalised (or dropped altogether) during construction phases."*[125] Such examination has shown evidence of having demonstrated application of mitigation/remedial measures to issues that have emerged during project implementation (e.g. Port Pointe Noire, Congo: AFD and EIB suspended loan disbursements in 2013 due to insufficient actions by government for de-pollution activities.

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119 Certainly in comparison to construction projects in SSA where unit costs have increased well in excess of inflation.

120 Usually including public consultations.

121 Other than TA-only support or other support which is not directly relevant to environmental issues.

122 Some projects estimate savings in CO2 emissions.

123 ENER/O.solarPlant/MA #15; Phase/Morocco, SESIA-ESMP Vol3 ACWA Power, 2013.

124 In the case of ENER/OSolarPlant/MA #15 a composite of WB Environmental Safeguard Principles, IFC standards and guidelines and the Equador Principles have been applied. ENER/PowerTrans/EG #31 is another example i.e. 'OPS-B-PPR 2013 EIB' *Due to its complex size and technical characteristics, the transmission line components of the project, if located within the EU, would fall under Annex I of Directive 97/11/EC and would thus require an EIA. The promoter has not been able to provide an example of an ESIA study for previous projects, and national legislation requires these ESIAs only in the context of international transmission lines and power plant connections. The scope of Egyptian requirements and standard practice for implementing ESIAs, notably in terms of public consultation, is different from the practice required by the EU and EIB Environmental Policy. The promoter has pledged that an ESIA, fulfilling EIB requirements, will be produced for all components where they are required by components that are co-financed by the World Bank, and the other ESIAs are expected later on to follow the same format, once that has been accepted by the World Bank, the EIB and NIF co-financiers.*

125 The quotation is taken from a draft Country Note of an ongoing EU evaluation. National comment upon this finding was that it was *'harshly worded but basically correct'*.

I-6.3.4 Performance monitoring framework in place

All IFIs have established procedures, check lists and due diligence procedures for M&E, including supervision missions (from HQ and local agency), non-objection at key stages of the project and sometimes, ex-post evaluations, as summarised below. Compliance with agreed monitoring frameworks was also a contractual condition.[126]

IFI	Reporting and Monitoring	Evaluation
KFW	▪ Annual risk assessment and monitoring report ▪ No quality scoring ▪ Annual project reports	On sample basis (i.e. not all projects) 2-3 years after completion[127]
AFD	▪ Results framework introduced 2005 ▪ Quality scoring introduced 2012 ▪ Annual project reports.	
EBRD	▪ Results framework introduced 2015-09-23 ▪ Transition impact ratings ▪ ROM reports ▪ Annual[128]	
EIB	▪ Revised results framework introduced in 2014	No evidence examined
NIF	▪ Annual project reports	

Some projects were also subject to periodic ROM monitoring by EU (e.g. TRANS/MetroRehab/AM #9; TRANS/RoadRehab/MD #29; WASH/TajikWR/TJ #37).

Performance monitoring capacity can also be an output of a blending project (e.g. IND/SME Facility/REG #12 – capacity building includes enhancing capacities of SMEs to monitor risks and manage funding). But monitoring systems are only effective if the baseline information is of good quality, indicators are relevant and action is taken upon trends thus detected. TRANS/Corridor/MZ #26 is a sobering example of *'misalignment between regular supervision assessment and the reality of project progress' i.e. missions did not accurately reflect the warning signs that the Project Objectives were not going to be fulfilled until towards the end of the project'.*[129]However 83% of respondents to the questionnaire considered that blending projects were correctly or very well supervised.

Performance monitoring is not restricted to construction/implementation and operational performance, it is also a consideration in risk management and justification for investment (e.g. ENER/C.Intercon/NA-ZM #1 – underutilisation of the line in the 1st year (i.e. only 25%)

126 e.g. TRANS/RuralRoad/SV #18 – *It will be a contractual condition that MOPTVDU shows tot eh IDB and AECID semi-annual progress reports indicating progress on each project, including amongst others: i) a description of activities, ii) physical implementation schedules updated and disbursements; iii) degree of compliance with agreed performance indicators, iv) summarize the state of financial performance and the flow of resources planned for the next semester, and vi) the project implementation, among others'.*

IND/SME Facility/REG #12 – *'The PFIs will report to Finance Institutions periodically (at least on a semi-annual basis) on the portfolio of SME loan financed from the proceeds of the Facility loans, including information on regional outreach, number and volume of new lending, average size of sub-loans, average tenor of sub-loans, non-performing loans etc. TA consultants selected to implement institution building programmes will also report to the Finance Institutions on the progress of their assignments. These reporting inputs will be used by the Finance Institutions to monitor and evaluate the implementation of the Facility and to report to the EU'.*

127 But, no projects yet completed and thus no evaluations.

128 Sometime 6-monthly

129 These quotations are taken from the WB, Implementation, Completion and Results Report for the Beira Railway Project 2012

obviously adversely affects economic justification for investment (especially if not remedied for some years as expected)).

The application of the Mutual Reliance Initiative (MRI) Principle and nomination of a lead donor (for most blending projects) reduced the requirement for multiple reports although report of higher transaction costs for blending projects for both partner IFIs and national institutions was reported from various countries(e.g. Namibia, Mozambique).

A minority of projects scrutinised which involve construction of infrastructure, have been completed and Project Completion Reports are available. However, fewer such projects have yet undertaken ex-post evaluations, presumably on the grounds of the length of time required to generate outcomes and impacts after conclusion of construction or implementation of the project.[130] Overall the performance monitoring systems appears to be robust and reporting follows specified frequencies.

I-6.3.5 Degree of contribution of blending instruments to effectiveness of QA measures and QC during construction

In the early stages of project identification and preparation (e.g. NIF Contribution Request) focus is on project description and related parameters. Risks are identified which, in some cases include implementation risks and mitigation measures (e.g. TRANS/PublicTransport/MD #10 – '*….expatriate experts will be contracted to assist …with preparation and implementation….*')

With development of the project design so greater control is implemented covering such issues as communication, monitoring, management team structure, commissions/committees, procedures (including 'no objection'), on-site inspections and reporting). Such measures include monitoring of any covenants or commitments that were not preconditions for disbursement (e.g. tariff reform, fare increases, institutional reform) and which may have impacted upon implementation, subsequent operation, viability and sustainability (e.g. COM/Subcable/MR #7).

All projects scrutinised asserted that implementation should be carried out according to best international standards (which are often superior to national standards and national practices).[131] Components of project activities and outputs can have a 'feed-back' input to improving QA and QC during construction/implementation (e.g. TRANS/RuralRoad/SV #18 – introduction of QMS in MRP certified in accordance with ISO9001) and the presence of international consultants, supervisors or PIU/PMU personnel should have contributed to technology transfer to national personnel (although few projects mention specific assignment of 'counterparts' to international staff).

Most projects scrutinised reported effective QA and QC during implementation (e.g. WASH/SMWP/AM #33[132]) and there were examples of project supervision identifying and resolving quality issues during the course of construction (e.g. ENER/WindFarm/EG #32 – repairs to foundations; TRANS/MetroRehab/AM #9 – renewal and safeguarding against asbestos hazard).

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130 E.g. ENER/C.Intercon/NA-ZM #1: The PCR was prepared in May 2012; the ex-post evaluation was carried out in April 2015.

131 IFI requirements differ but are of similar rigour.

132 Project Report No 2 2013 – *The company is demonstrating significant progress in their project implementation and management capacity. The PIU is staffed with skilled personnel covering the whole range of required expertise. The project information and management systems, as recommended by the Bank, are in place enabling good record keeping and timely reporting to the Bank.*

However, such strictures and procedures do not always ensure success if project assumptions, risk analysis or architecture are flawed (e.g. TRANS/Corridor/MZ #26: Rail component – project control weakened by not only the contractors' weak performance but also by a bilateral administrative and institutional structure (CCFB/BIU/CFM/GOM); ENER/C.Intercon/NA-ZM #1 – testing (for QC) actually damaged the infrastructure and equipment due to contractor error, and due to low load, has yet to be tested under full capacity). That being said, overall QA and QC measures were fit for purpose and IFI requirements in this respect have significantly contributed to effectiveness. However, it is not apparent from documents scrutinised whether there was significantly greater rigour associated with blending compared with similar projects with other financing modalities.

Thus whilst blending projects have demonstrated effective QA and QC measures in accordance with international practices and IFI procedures during construction/implementation such rigour is similar to QA and QC procedures applied on recent projects financed by other modalities, other than some nationally implemented projects.

JC 6.4 Measures put in place to ensure effective operation and maintenance

I-6.4.1 Partner government commitments (especially regarding operations and maintenance) scrutinised; contingencies in case of default identified

Beneficiary commitments take various forms:

- General (e.g. TRANS/MetroRehab/AM #9 – *'…the Client is highly committed to proactive project management'* and *'….the management have shown strong commitment….':* ENER/Geothermal/DM #40 – *'….fiscal consolidation by government';* COM/SubCable/MZ #7 – State of Mauritania commitment to the project).
- Thematic (e.g. WASH/TajikWR/TJ #37 – government compliance with EU environmental standards and EU Directive on waste).
- Structural/institutional (e.g. COM/SubCable/RZ #7 – government to promote the creation of the project company.
- Issues which have a direct bearing on viability and sustainability (e.g. WASH/TajikWR/TJ #37 – cost recovery and debt reduction; WASH/KotaykSW/AM #13 – full recovery of costs via combination of increased tariffs, higher payments from commercial agents and recurrent subsidies; ENER/OSolarPlant/MA #15 – GOM to finance the gap between the price paid and real production cost of electricity; TRANS/PublicTrans/MD #10 – '….*adjust fares upward and ensure refrain from interfering in operations, compensate for adverse or regulatory changes';* ENER/PowerTrans/EG #31 – government commitment to 7.5% annual increase in electricity prices and control of inflation).

But in most cases no mitigation or contingency measures were overtly set out or related conditionalities specified [133] even when there was an element of doubt about delivery of commitment[134] or a history of non-delivery of commitments[135]. However, an absence of stated contingency provisions does not necessarily imply that no action was taken in case of default (e.g. OTHER/TAMunic/UA #34 – a component of this project was TA to the Odessa Public Transport Project but '*due to ongoing financial and legal difficulties in relation to the Ukrainian Budget Code,*

[133] Except for pre-conditions or compliance with covenants for initial disbursement.

[134] e.g. ENER/PowerUU/GY #22 – noting that the project will require '*continuous and strong political commitment from GOG and GPL'* the IDB Contribution Request goes on to note risk of '*low commitment of GPL to implement previously agreed performance contracts for current service management and TA not fully accepted by service management'.*

[135] e.g. TRANS/Corridor/MZ #26 – GOM commitment to improve and maintain the road network in the Beira Corridor despite a well-documented history of failed commitments to road sector donors of adequate road maintenance)

as well as change of leadership in the City and uncertainties regarding the Odessa Electro Trans's commitment, this project has not progressed) and funding for associated TA assignments was de-committed.

Commitments were also made by IFIs (over and above agreed support) (e.g. IND/SMEFacility/REG #12 – *'IFIS will seek to promote funding to the PFIs with a commitment to re-engage in lending to SME segment….'*; WASH/TajikWR/TJ #37 – EBRD commitment to implement various environmental projects; ENER/OSolarPlant/MA #15 – IFIs to finance the first part of Moroccan Sector Plan (to attract commercial banks to co-finance subsequent phases).

However, overall blending has not been successful in ensuring that national partners fulfil commitments as 70% of questionnaire respondents report such delivery was low, moderate or zero.

I-6.4.2 Assumptions and mitigation measures identified and validated

This response covers risks as well as assumptions together with mitigation measures.[136] Although risks were identified in the project preparation process, most risks so identified in the Contribution Request focussed on financial risk. (e.g. ENER/O.SolarPlant/MA #15 – the Contribution Request notes that '…..*additional analysis will include a review of assumptions made….')* Typically risks may be technical, operational, institutional, counterpart, procurement, sustainability and up-take. Descriptions of project activities were expected to explain how the various risks are proposed to be addressed.[137]

Of course identification of a risk and successfully mitigating that risk are not the same thing. Various measures proposed were 'light-touch' or somewhat generic (e.g. Strategic Priorities 2014 – 2020 and MIP 2014 – 2017: European Neighbourhood-wide measures – implementation risks *'will be mitigated by carrying out a mid-term review'*; ENER/SudgELR/TJ #16 – *key operational risks in projects of this sort increase delays and poor physical implementation. In order to mitigate these risks, project implementation arrangements will build on the experience of the World Bank in a similar project and the EBRD project experience in similar countries. Risks related to poor performance with the sector reform agenda are also acute. Therefore, a joint approach has been adopted by all IFIs and international community, including the EU, in order to elevate the policy dialogue with the Tajik government to pursue sector reforms.)*

Many assumptions are linked to financial models, justification and viability (e.g. WASH/IWSS/MD #11 – *'prudent assumptions on Company revenues and expenditures'.*

136 For this exercise the following definitions are suggested.

Assumption – something taken for granted; supposition

Risk – exposure to chance, injury or loss; hazard or dangerous chance

Assumption analysis – identification of all assumptions made at project planning stage as a means to reduce risk; determination of accuracy of each assumption is necessary to identify all risks (of the assumption being inaccurate).

Risk analysis – qualification and quantification of dangers to project posed by adverse events

137 ENER/O.SolarPlant/MA #15 is typical in identification of risk and expected mitigation measures; ie for this project.

- Technological risk – not assessed as significant

- Financial sustainability – strong involvement of government to finance gap between purchase price and production cost of electricity.

- Institutional and contractual risk – cooperative agreement, signed before project commencement.

- Environmental risk – ESA (EIB and WB procedures)

But assumptions can be flawed (e.g. ENER/C.Intercon/NA-ZM #1 – financial sustainability for currently under-utilised transmission infrastructure wrongly assured contribution of Zambia transmission lines[138])

IFI and EU strategic orientations (e.g. NIF) promoted support of some higher risk activities, especially in support of increasing renewable forms of energy production which would have been be impossible to finance at that stage via private financing. By the successful demonstration of such applications private financing may be prepared to engage in expansion on proven investments (e.g. ENER/O.SolarPlant/MA #15).

But a further issue arises not from identification of assumptions or risk but upon understanding and optimistic interpretation of potential risks although few ex-post evaluations (which would be expected to analyse accuracy of assumptions) are yet available (e.g. ENER/C.Intercon/NA-ZM #1: Final Report. Ex-post Evaluation of the Caprivi Link Interconnection Project, AFD, 2015[139]: Concept and Objectives…. *'When diverse strategies and objectives of the three co-financiers are merged, global objectives altogether become over-ambition.'* Projections and project risks: *'Project risks as well as key elements relevant to the performance of the project in the future (regional demand, regional trade mechanisms, cross-border tariffs, etc) were not adequately assessed during the design phase. Risk management and control mechanisms were not sufficiently defined to allow for timely corrective action. Therefore the development of project scenarios should be thoroughly assessed and monitored, including ancillary projects and the wider project environment.'*

TRANS/Corridor/MZ #26: Implementation Completion and Results Report ICR2154, WB 2012 expresses similar sentiments rather more forcibly. It is not proposed to list the detailed conclusions of this report[140] but to note the evaluation findings on 'Flaws in initial assumptions and optimism bias'. i.e. *'The economic and financial analysis was based on overly optimistic assumptions about the benefits that could accrue from building or rehabilitating the rail lines. The volume of traffic that was expected to divert from the road transport and the value line were also exaggerated. Moreover the revenues were not based on a clear understanding of the volumes of coal traffic which were potentially the main source of revenue. Assumptions about the agricultural and timber traffic were also unrealistic given that these were not sufficiently developed and expecting the rail line to increase these exponentially was a stretch. As a result the cost-benefit analysis promised returns that were unrealistic. This phenomenon has often been referred to as optimism bias.[141] This is a systematic tendency for people to be overly optimistic about the outcome of planned actions. In this case the actual costs of the Project were downplayed and the benefits were exaggerated. Taking these realities into consideration would have significantly re-shaped the economic analysis and perhaps re-focussed the Project….the above flaws in assumptions were not helped by the failure of the Project design and execution."*[142]

Whilst it is certainly not suggested that such extreme combinations were a general feature of blending projects, the point about over-optimism in claims of project outcomes is well taken (and is not a feature only of blending projects). , Optimism bias appears to be a feature of some blending projects (e.g. COM/SubCable/MR #7: EIB PCR notes IMT demand scenarios being made more optimistic than EIB assessments at appraisal resulting in EIB requiring a revised business plan;

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138 Despite the 2011 EIB Monitoring Report noting that – *'The Bank has, through the appraisal, assisted NamPower in developing a financial model, with realistic and more conservative assumptions and ensured the model's integrity, logic and robustness, thereby improving project planning process.'*

139 The evaluation recorded as 'Satisfactory'; the Financiers Contribution, 'Moderately Satisfactory', relevance and sustainability whilst effectiveness, efficiency and impact were rated as moderately successful.'

140 Which concluded significant risk to development outcome, unsatisfactory quality at entry, supervision and overall bank performance and moderately unsatisfactory borrower performance (government and implementing agencies)?

141 Flyberg (2003) Megaprojects and Risk – An Anatomy of Ambition. Cambridge University Press.

142 Amazingly the 25km from Beira port to Dondo was overlooked in assessment of rehabilitation needs

WASH/WASH in LA/REG #38: multiple risks identified (e.g. government and institutional capacities, lack of information, lack of commitment, additional financial leverage not produced) all of which proposed to be overcome by careful selection procedures.

In conclusion assumptions and risks were identified in blending projects but there was a tendency for over-optimism as regards such assumptions and expectations for project outcomes and under-estimation of the significance of risks (although such situations do not only apply to blending projects).

I-6.4.3 Reviews of institutional capacity building and training needs assessments undertaken together with consideration of need for TA and implementation of training (as necessary) at all stages in project cycle (including operations)

Institutional capacity issues have been identified at project preparation stage and have been noted on project submission forms (under *'Project parameters'* and/or *'Risk assessment',* and, in case of perceived problems, under *'Issues to be clarified during formulation'* (e.g. ENER/PowerUU/GY #22 – reference to: 'IDB *'extensive experience'* working in power sector in Guyana including institutional strengthening leading to the project improving local capacities, operating efficiency and corporate efficiency having noted as a risk '*low commitment by GPL…'*; WASH/IWSSI/GY #21 – institutional strengthening and capacity building as a project component, a detailed analysis to be undertaken). TRANS/RuralRoad/SV #18 – institutional component includes studies, TA and M&E aimed at strengthening processes, methods and tools for road project cycle and climate change resilience.

Similarly, other projects carried out detailed studies of the sector, institutional situation (e.g. WASH/TajikWR/TJ #37 – *'….recognising low institutional capacities a sector development study is proposed'*. WASH/IWISSI/GY #21 – Institutional analysis; WASH/IWSS/MD #11 – Institutional analysis and assessment).

Capacity building was, in most projects, expected to be achieved by TA facilitating 'technology and know-how transfer' sometimes accompanied by specific training (although little evidence of measurement of effectiveness of such capacity building has been examined) (e.g. MULTI/UrbanTrans/BD #23; WASH/TajikWR/TJ #37; IND/SMEFacility/REG #12; ENER/SEFF/MA-JO #35).

Although some projects had a specific training programme (e.g. TRANS/RuralRoads/SV #18 – planning, M&E and engineering), assessment of training needs has not been a standard feature of preparation of blending projects, although there is evidence of some analysis of institutional structures (e.g. WASH/IWSSI/GY #21).

I-6.4.4 Implementation of operations and business plans for the completed assets

Business development (and support to development of SMEs) is a component of IFI mandates and various EU facilities (e.g. NIF – ENBF (European Neighbourhood Small Business Growth Fund). Operations and business plans have been identified as contributions to viability and sustainability of project outputs and institutions.

In some projects scrutinised, existing business plans were identified as a weakness and/or risk to project results (e.g. Pakistan: WAPDA. '*Nangla Training Centre is in a run-down state based on an inefficient business model*'). In response support included design and preparation (or amendment) such business plans (e.g. Pakistan: WAPDA 10 year business plan for HTPI (sustainability through cost recovery) and TRANS/MetroRehab/AM #9 – preparation of Corporate Development Programme and

Business Plan; WASH/TajikWR/TJ #37 – preparation of draft business plan; WASH/ESWS-II/BD #24 – development of 5-year business plan in 2011 and annual updates; WASH/IWSSI/GY – contribution to Guyana water Inc. Strategic Business Plan; OTHER/TA Munic/UA #34 – Dnipropetrovst Metro Extension – preparation of 5-year Business and Marketing Plan).

However, assessment of existing business plans was not always sound (e.g. TRANS/Corridor/MZ #26 Rail component – *'after having promised a business case and technological justification ….the Bank's services were scrutinised and received all necessary approvals to renegotiate a new Project Agreement with CFM'* (EIB OPSB-PPR2014) whilst the WB Implementation Completion and Results Report 2012 notes *'….there was no understanding of basic drivers for a successful rail business model'.*

Operations plans have been prepared as a component of an overall business plan and comprise the actual operational arrangements including production, transmission, maintenance, QA and QC monitoring etc after construction or provision of the finished project product. Production projects had detailed operation plans ready for application upon conclusion of the project (e.g. ENER/O.SolarPlant/MA #15; ENER/WindFarm/EG #32; COM/SubCable/SC-TZ #6; TRANS/Airport/MZ #25[143]). Given that few projects have reached maturity there is relatively little evidence of the medium/long term effectiveness of such plans but there are indications that assumptions upon which such plans were based may in some cases have been optimistic or partial (e.g. TRANS/Corridor/MZ #26 – Rail component WB PCR 2012 reports *'….lack of technical understanding of the details of design, construction, maintenance and operation of rail infrastructure'* and *'on the Machipanda line insufficient maintenance of both line and rolling stock…left it to deteriorate further rather than being rehabilitated as was envisaged';* ENER/C.Intercon/NA-ZM #1 – although CLI was completed, usage was less than expected due to missing links in Zimbabwe and, especially, lines in Zambia not being operational as was assumed.[144] Due to this under-utilisation of CLI funds to be used for rural electrification were not raised and the rural electrification did not go ahead).

I-6.4.5 Degree of contribution of blending instruments to effectiveness of operation and maintenance

To some extent this Indicator overlaps with I-6.4.4 which examines provision of business and operations plans for blending projects. Assessment of contribution of blending instruments may be considered from different perspectives.

Firstly, the rigour of the diligence of the project preparation (assumptions, identification of risk and mitigation measures, preparation of operation and maintenance plans)[145] and effectiveness of project implementation (together with adaptation in response to changing or unforeseen situations). The various components of this 'due diligence' have been examined in I-6.4.1 (commitments/contingencies), I-6.4.2 (assumptions/mitigation measures); I-6.4.3 (institutional capacity) and I-6.4.4 (operation and business plans).

Secondly in comparison with similar projects undertaken with different funding modalities (grant i.e. EDF or pure loans). Comparisons have been explored in greater depth (questionnaire and field

[143] Operations and maintenance plans have been prepared for MIA (and MWSP) although adequacy of budgetary planning is, as yet, unproven. In this respect the scope of consultancy serviced by the grant component of MIA was extended to review and preparation of financial plans for ADM. It should also be borne in mind that the safety deficiencies being remedied by the MIA blending project arose, in part, from maintenance neglect and operational shortcomings (Source, interviews with IFIs, EUD, national partners, scrutiny of project documents).

[144] Although hopefully this situation will be remedied in a few years.

[145] This can only really be tested after delivery of project outputs.

phase) but the most direct comparison has been possible for transport sector interventions (especially roads). EU has supported (by grant) the transport sector (over 90% of support to the transport sector being to the roads sub-sector) in multiple countries up to and including 10 EDF.[146] Further, from 9 EDF onwards there was intended to be a move from a project-based approach[147] and SBS although in practise few countries were judged sufficiently institutionally and procedurally robust to adopt SBS (and even fewer were successful) whilst delays in earlier EDF programmes caused a continuing implementation of projects, in some countries concurrently with a SWAP approach. Thus, road sector projects have been undertaken contemporaneously using blending and 'traditional' grants. Examining some blending projects in this sector reveals the following components:

Blending project	Support	Project components
TRANS/RoadRehab/MD #29[148]	EBRD -€30M EIB - €30M WB/IDA - €12M NIF - €12M (grant)	▪ Rehabilitation of R14 Balti-Sarateni Road - Construction and supervision (MIF contribution specifically for 16km section km 10 + 780 – km 26 + 600) ▪ TC (WB funding) related to restructuring of road maintenance enterprises, introduction of axle load control, support to SRA, updated strategies, policy dialogue.
TRANS/MasterPlan/NA-REG #5 [149]	ITF - €495,000 (grant)	TA for preparation of Integrated Transport Master Plan - evaluation of existing transport infrastructure - forecast of traffic demand - 'shopping list' of potential investments - packaging and prioritisation - funding options
TRANS/RuralRoad/SV #18	IDB - €10.5M AECID - €10.5M LAIF - €4M (grant)	This project is the 2nd component of the Rural Road Programme in El Salvador i.e. Rural Connectivity for N and E Zone ▪ Rural road works - construction and supervision ▪ Institutional strengthening (LAIF Contribution) ▪ TA for supervision, climate change adaptation, training

The nature and scope of these blending projects is very similar to traditional grant-funded projects (e.g. EDF) albeit that the financing architecture and collaborating entities (i.e. IFIs) differ. Comparisons of project performance (effectiveness, efficiency, impact and sustainability) between blending and recent grant funded projects subjectively reveal little difference whilst the degree to

146 Under 11 EDF a general withdrawal from the sector was intended but residual sector support continues in a number of countries mainly, but not only in SSA.

147 Arguably blending is a project-based approach albeit projects being expected to be compliant with wider sector policies.

148 As an aside it is noted that the EIRR for the NIF section was calculated at 10.3% and all sensitivity tests on EIRR value reduced the value below the conventional 12% threshold. ROM (MR – 141528.02 21/01/2013) reports cost escalation of about 15% plus significant variations for additional quantities of work suggesting a reduced EIRR of < 10%. No re-visiting of viability/justification calculator has been examined.

On the other hand estimation of quantities for road rehabilitation is notionally different in that the rate of ongoing deterioration is not linear and a prediction is necessary of road condition (and thus qualities of work for rehabilitation) at an assumed intervention date. Any delays will result in intervention on a road in worse condition than expected and thus greater quantities and higher costs.

149 The project pipeline identified by the study has reportedly provided a platform for policy dialogue (and generated visibility for EU) but the Master Plan has not been formally adopted by the Government of Namibia.

which blending has contributed to effective operation and maintenance is assessed as moderate or worse by 89% of respondents to the questionnaire.

In conclusion IFI 'due diligence' has been applied to operation and maintenance plans for blending projects including assessment of institutional capacity but the effectiveness of such is in doubt as attested by a large majority of EUD respondents to the questionnaire assessing blending contribution as 'moderate' or worse[150].

JC 6.5 A higher project quality can be attributed to blending

I-6.5.1 Comparison with quality of similar projects funded by IFIs through pure loans in similar conditions shows differences in quality

Project quality is a direct result of good specifications/norms applied by good practices at feasibility, design, construction/implementation, operations and maintenance stages. Engineering quality in terms of standards of design, quality of supervision, environmental measures and attention to O & M were in accordance with international norms. Adoption of such standards and practices were added at the insistence of IFIs – they were not a result only of grant funding of consultancy services/TA even though in many cases grants were so used.

Grants were also used for other purposes which are to some degree speculative e.g. preparation of a master plan (such as the update of the WAPP Masterplan – ENER/WAPP/REG #2 or Namibian Integrated Transport Master Plan – TRANS/MasterPlan/NA-REG #5). There are possibilities of subsequent investment in infrastructure thus identified but this initial study probably would not have gone ahead without grant funding.

Grants have also been used for TA in connection with procurement processes (e.g. IWSP Egypt – WASH/IWSP/EG #14; Caprivi Interconnector – ENER/C.Intercon/NA-ZM #1 and for institutional support to operations (e.g. Maputo International Airport – TRANS/Airport/MZ #25; El Zayt Wind Farm – ENER/WindFarm/EG #32). Intended outcomes were greater quality in terms of project management and operations.

Investment grants have a direct enhancement of affordability of projects (e.g. in Georgia – Enguri HPP; Black Sea Power Transmission and East-West Highway Projects). Similarly, the SMEFF subsidy is an example of a grant making the RE/EE investment more affordable for the consumer/borrower.

I-6.5.2 Views of different actors involved (e.g. beneficiaries IFIs, EUDs) confirm that quality would have been lower in the absence of the grant

Grant components in the case of infrastructure provision supported consultancy services for studies, detailed design and supervision, usually coupled with a component of TA for institutional strengthening/capacity building and training. On the assumption that such specialist consultancy and TA were correctly judged to be necessary[151] then without such services project quality would have been lower, and in some cases the infrastructural possibly would not have been implemented in an absence of technical expertise for design, supervision and institutional support (e.g. projects including sophisticated technology such as ENER/O.SolarPlant/MA #15 or

[150] This is a fundamental issue which is entwined with sustainability issues of delivery of partner government commitments (see also I-6.4.1)

[151] Few projects scrutinised identify significant in-house national technical or institutional capacity for such specialist services.

ENER/WindFarm/EG #32 were dependent upon specialist inputs[152] which were a component of blending support).[153]

Contacts with IFIs have identified some blending projects as asserted examples of added quality (e.g. ENER/WindFarm/EG #32 – grant funded TA prepared feasibility studies leading to master planning and policy discussions on renewable energy share nationally and to environmental studies (to international standards)). Interestingly this project gives one of the few examples yet encountered of the role of EUD involvement in blending projects (i.e. participation in policy dialogue[154], ensuring that the budget support reform agenda was complementary to investment projects and support to wider studies such as an energy sector master plan). This perspective has been further investigated undertaken during further consultation with IFIs and with EUDs during the field phase. It is confirmed from a majority of country visits[155] that in comparison with other modalities blending has delivered better quality projects[156].

I-6.5.3 Evidence that certain components contributing to project quality were introduced during the selection of the blended projects

The interactive nature of project identification and design, thereby increasing focus and development of detail (including ESIAs and preparation of ESMPs) has been examined in JC 6.1.Contacts with IFIs during the field phase have identified examples of blending projects in which additional issues or components were introduced during the project development and design process (e.g. WASH/LVWATSAN/UG #27-28-grant-funded TA prepared studies of increasing scope (monitoring of water quality master planning, higher environmental standards), which led to preparation of loan-funded works, institutional strengthening and policy discussion of regulatory issues).

However, doubts have been expressed by 86% of EUD respondents to the questionnaire considering that design of blending projects has led only to a moderate or worse degree of sustainability and cost effectiveness of projects. But not all blending projects have enjoyed adequate design quality. Design issues were fundamental for subsequent implementation problems for the Beira Corridor Project (rail component). The project was pivotal to the WB CAS for Mozambique (EIB support came in later when high cost over-runs became obvious) which was the first joint effort by IDA, IFC, MIGA and other partners. PDOs were considered realistic and aligned to national policies (e.g. PARPA). Alternative project designs were considered, all including a concession as the point of engagement with the private sector, a phased approach being finally selected (i.e. phased rehabilitation of the Sena rail line but a single concession in which the concessionate was responsible for upgrading both the Sena and Machipanda rail lines). However, insufficient data was available to back up assumptions regarding expected increases in forestry and agricultural goods and expected coal transport. It was subsequently concluded that there was no understanding of the basic drivers for a successful rail business model. The project was optimistic

[152] Further examples of specialist inputs for state-of-the-art technologies can be seen in blending projects in Armenia i.e. Yerevan Metro Rehabilitation TRANS/MetroRehab/AM #9 – SCADA systems; Small Municipalities Water Project – WASH/SMWP/AM – SCADA, automation and remote control of operational units (although there is a concern that the technology proposed may be too advanced and more suited for a larger city with space constraints despite training being undertaken in use of SCADA systems.

[153] On the contrary, some other projects use simpler technology which may be available more widely (e.g. TRANS/RoadRehab/MD #29 or TRANS/RuralRoad/SV #18).

[154] It is not entirely clear whether this dialogue was a part of or separate from dialogue between IFIs and government; either way the same message was sent to government.

[155] Ie Moldova, Kenya, Georgia, Egypt, Congo

[156] Although there is also evidence that recent projects undertaken by grant funding have also been in accordance with similar international standards (eg Mozambique, Namibia)

about the potential for private sector participation but few bidders expressed interest. The winning consortium had national and regional consultancy experience but no proven experience running successful rail operations. The shareholding structure (51% concessionaire, 49% CFM as principal) meant that the principal had little or no leverage on major decisions whilst the role of the CFM was unclear (regulator, policy maker, client, operator). Given that the concessionaire was trying to negotiate a coal tariff with mining firms at the same time that the same mining companies were negotiating mining concession agreements with GOM there was no incentive for the mining companies to progress negotiations for rail access with the concessionaire as their clear advantage was to work towards taking over the rail line operations and thus combine the mining and rail concessions (which is the situation today). Also the remit of the Independent Engineer was, in the project design, limited to providing technical opinion but without any authority to instruct remedial action. This advice was consistently sound, giving warning of problems, but it was inexplicably ignored by the concessionaire whilst CFM was powerless to insist on adoption of such measures. Going forward from such project design shortcomings, poor project implementation and operations management, poor HR negotiations and poor business skills all contributed to mistrust, undermined the relations between the concessionaire, CFM and GOM and led to the eventual termination of the concession agreement. (Source: Interviews with IFIs, EUD, national partners; scrutiny of project documentation).

An issue which impinges on the component parts of blending projects relates to coordination and information sharing between IFIs and EUDs. From comments upon the questionnaire these has been improving coordination and communication with and between IFIs although '…..*coordination remains time consuming of course'* and information sharing remains incomplete…..*'the information they (IFIs) share during project implementation remains too limited and the EU has too often to request information to the banks which do not always do it naturally.*

Field visits have reported similar improvements in coordination but there is still room for improvement (e.g. Columbia – *where donor coordination is not well advanced or structured…thus crucial. Blending projects showed high transaction costs. LAIF procedures are lengthy, project management is time-consuming, and procedures between IFIs have not been simplified. …'* This finding is supported by field visits to other countries (e.g. Egypt – '*Blending has led to improvements in coordination but there are still challenges. Although blending projects have reduced the number of actors and different donor systems….there are still opportunities to improve. The IWSP project for example has 10 different agreements and each donor has a different expiry date….the pari parsu principle and different programme periods of donors are an obstacle….'*

Although EUD involvement in early blending projects often went no further than commenting on project fiches in advance of AIF board meetings more recently cooperation has been more intense with reports of EUD facilitating negotiations (between government and EIB). Limited EUD experience of blending projects is a recurring feature of EUD comment.[157]

[157] Eg. '*Our experience of blending projects is limited…"Only ne blending project funded in Brasil – no further comment'; 'There is only one blending project in Sri Lanka. Even though signed in Dec 2014, the goevernemnt has still not signed the bilateral agreement, therefore not possible to evaluate'; Jordan is still in the process to start major blending projects.*

7 EQ 7: Finance Barriers

To what extent has blending contributed to improving access to finance for MSMEs?

Judgement Criteria	Indicators
7.1 Blending has increased the capacity of financial intermediaries to provide financial services to MSMEs	1. Availability of a tailored risk management system to assess MSMEs 2. Availability of a guarantee scheme to substitute for lack of collateral of MSMEs 3. # of products dedicated to MSMEs (trends) 4. # of outstanding loans to MSMEs (trends) 5. Value of outstanding loans to MSMEs 6. # branches 7. Value of deposits portfolio in financial intermediaries
7.2 Blending has improved the capacity of MSMEs to deal with financial intermediaries	1. Value of TA services (€ spent) 2. Number of micro and small businesses advised by TA service 3. Financial literacy indicators 4. Take up rates of guarantees and collateral-substitute products
7.3 Each blending instruments has had a specific contribution to the improvement of MSMEs' access to finance	1. Contribution of investment grants 2. Contribution of interest rate subsidy 3. Contribution of TA 4. Contribution of risk capital 5. Contribution of guarantees

7.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarized in the table below:

Table: Methodological approach
1. Examine whether blending projects have increased the capacity of financial intermediaries to provide financial services to MSMEs: ▪ Assess, through project documents, data analysis and interviews of IFIs and partner FIs, the contribution of blending projects to the evolution of the number of products dedicated to MSMEs ▪ Assess, through project documents, data analysis and interviews of IFIs and partner FIs, the contribution of blending projects to the evolution of the volume of activities dedicated to MSMEs ▪ Assess, through project documents, data analysis and interviews of IFIs and partner FIs, the contribution of blending projects to the evolution of the accessibility of the products dedicated to MSMEs Assess, through project documents, data analysis and interviews of IFIs and partner FIs, the contribution of blending projects to the evolution of the quality of the products dedicated to MSMEs
2. Examine whether blending projects have increased the capacity of MSMEs to deal with financial intermediaries: ▪ Identify, through project documents analysis and interviews of partner FIs and MSMEs managers, the amount and the type of TA services provided to MSMEs ▪ Assess, mainly through interviews of MSMEs managers, the contribution of blending on the evolution of their financial literacy levels ▪ Assess, through project documents analysis and interviews of partner FIs and MSMEs managers, the contribution of blending on the evolution of take up rates of collaterals
3. Assess the contribution of each blending instrument used in improving MSMEs access to finance. For each of the blending instrument: ▪ Assess, through interviews, project documents and survey its contribution to the identified or expected evolution of financial intermediaries' capacity to provide financial services to MSMEs.

Rationale for the EQ:

Due to high risks perceived in the MSMEs segment, access to finance remains a key constraint for the development of the private sector in emerging economies, especially following the recent global financial crisis. Blending is expected to open up and incentivise entrance to new or otherwise risky markets for private sector actors, with for instance the provision of financial services by financial intermediaries (FIs) to MSMEs.

The question aims to assess the extent to which blending has fulfilled its role of reducing market barriers by contributing to the creation of capacities in FIs to serve MSMEs (e.g. implementation of specific strategies and products), by making new financing available to FIs (both through blending operations and through reducing market imperfections), and by strengthening MSMEs' capacities to deal with the financial market. It therefore tackles two dimensions: to what extent TA

and possibly risk capital from blending activities (i) increased the capacity of financial intermediaries to provide appropriate financial services to MSMEs (both qualitatively and quantitatively), and (ii) contributed to the strengthening of MSMEs' capacity to deal with financial intermediaries. It also assesses (iii) the extent to which the impact of blending on MSMEs' access to finance has depended on the instrument used.

The question addresses **effectiveness** of blending, as it aims at verifying whether one of the expected outputs, related to its value added, has been generated. It is also a question of **sustainability**, as strengthening financial intermediaries' capacity is a means of increasing the probability that the outcomes and impacts of operations are maintained over time.

Sources of information:

A total of 19 projects have benefited from EU funding in the field of finance barriers. From the 19 projects, 5 have been selected for the in-depth study[158] (28% of the EU amount in the field of MSMEs' financial access), namely:

#	Name	Notes	IFI	Facility
12	IND/SME Facility/REG #12 - EBRD -13 SME Facility - EBRD / KfW window	TA + Loan Guarantee / risk cushion	EBRD /KFW	NIF
35	ENER/SEFF/MA-JO #35 - SEMED Regional Sustainable Energy Finance Facility : Phase 1 – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	Grant	EBRD	NIF
36	BANK/EFSE/MC #36 - KfW-03 European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	Risk capital	KFW	NIF
43/44	ENER/Env.Credit lines/REG #43 – 2013 - ENER/Env.Credit lines/REG #44 - 2010 Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	TA	AFD	ITF

All these projects have been visited during field missions: projects IND/SME Facility/REG #12 and BANK/EFSE/MC #36 have been covered in Georgia and Moldova, projects ENER/Env.Credit lines/REG #43-44 in Kenya, and project ENER/SEFF/MA-JO #35 in Morocco.

Additional information has been collected through the survey conducted among 36 EU Delegation during the desk and the field phase, although only a maximum of 25% of the respondents have provided relevant information regarding the financial access issue.

[158] The selection process is detailed in the Inception report.

7.2 Evaluation question

Summary:

- In most cases, blending has contributed to increase the capacity of financial intermediaries to provide financial services to MSMEs
- This increased capacity has been reflected in the trends observed in terms of number and volumes of loans provided to MSMEs.
- The contribution of blending to greater access to finance has been more tangible in microfinance sector than in the banking sector.
- Whenever direct support has been provided to MSMEs through blending projects, EU grants have been instrumental in improving their capacity to deal with financial intermediaries.
- The impact of blending on financial literacy levels and take up rates of guarantees and collateral-substitute products has however been limited.
- Each instrument has had a specific contribution in terms of reducing finance barriers for MSMEs.
- The extent to which blending have contributed to reduce finance barriers for MSMEs has been mixed among instruments. The guarantee mechanism was perceived to have a higher impact on improving MSMEs access to finance compared to TA.

Total EU funding allocated to supporting MSMEs' access to funding reached more than EUR 130 million, through 19 projects. Investment Grants and Technical Assistance have been the types of support most commonly provided. Combined packages (TA combined with risk capital, guarantee or grant) have been also used (see the table below).

Table 38 - Blending instruments used for MSMEs' access to funding projects

Instrument	% of total amount
Grant	20.1%
TA	19.3%
Risk capital	15.9%
Guarantee	7.8%
TA/Risk Capital	15.0%
TA/Guarantee	12.6%
TA/Grant	9.4%
Total	100%

Source: ADE based on the Secretariats of the Facilities

The analysis is based on a sample of projects representing 28% of the EU blending funds allocated to projects supporting MSMEs' access to funding.

In most cases, blending has contributed to increase the capacity of financial intermediaries to provide financial services to MSMEs. TA and risk sharing instruments have been particularly essential for this purpose. Blending, through TA, has for instance contributed to have tailored risk management systems to assess MSMEs in partner financial intermediaries in several cases, such as SUNREF in Kenya (the partner bank did not have any internal capacity in terms of assessing the bankability of small scale EE-RE projects before the trainings received through SUNREF), or the SME FF in Georgia (thanks to the TA, partner MFIs have implemented efficient processes which allows them to let their agricultural portfolio constantly grow with a limited portfolio at risk). The first loss cushion of the SME FF has also been essential in certain cases, to make financial intermediaries change their risk policy and decide to serve more risky clients. This was notably the

case in Moldova, with a leasing company (the first loss cushion has contributed to have a shift in its clientele, from individual to MSMEs clients).

This increased capacity has been reflected in the trends observed in terms of number and volumes of loans provided to MSMEs. Positive trends in the number of MSMEs served and the outstanding loans to MSMEs have been observed among the partner FIs that have been involved in blending projects. As examples, in Moldova EFSE has approved a total amount of 100 million EUR of loans between 2006 and 2015 (facilitating a total amount of 149 million EUR of sub-loans), corresponding to 14 368 sub-loans. At regional level, EFSE has since its creation made the difference compared to other international actors by supporting the financial sector in the ENR whereas others were withdrawing due to the global financial crisis (financing institutions were indeed suffering from the breakdown of local and international capital markets, and MSMEs were particularly affected by the shrinking access to finance in the region). In Kenya, thanks to the TA provided to partner financial intermediaries through SUNREF (phase I), a total of 37 million EUR have been disbursed for small-scale EE-RE projects. In Morocco, the credit line of the SEFF partner bank (EUR 20 million) has been fully engaged in one year (April 2015- April 2016). Blending has been instrumental to the occurrence of these trends through the new segment covered (as it has been the case with partner MFIs in Georgia under the SME FF, and partner banks in Kenya under SUNREF as well as in Morocco under SEFF), the new product developed (under the SME FF in Moldova, the partner financial intermediary has decided to implement a new leasing program in transportation, accessible to MSMEs; under the SEFF in Morocco the partner bank has replaced its product by a MorSEFF based financial product), and the availability of a credit line dedicated to MSMEs (EFSE in Georgia and Moldova). In several cases, it has been confirmed by partner FIs that without blending projects their volume of activities with MSMEs would have been significantly lower.

The contribution of blending to greater access to finance has been more tangible in microfinance sector than in the banking sector. Blending has contributed to have shifts in strategies of MFIs (and other partner FIs) in terms of entering new market segments, whereas this has been observed only in two cases among partner banks (the SUNREF partner bank in Kenya, and the SEFF partner bank in Morocco). There is for instance no evidence of an impact of EFSE on partner banks' strategy toward MSMEs neither in Georgia nor in Moldova, whereas this has been observed in partner MFIs. Apart from the SUNREF and SMEFF projects (banks entering the small scale/private EE-RE market segment), partner banks have valued the credit lines related to blending projects more than other project components (especially TA). As a result, where the banking system was highly liquid as was the case in Georgia, there is little evidence of an added value of blending on drawing in financially excluded borrowers that would not have had access to loans otherwise than through the blending project. Furthermore, most of the end beneficiaries of EFSE loans through partner banks interviewed were already familiar with the banking system before the project. SUNREF and SEFF end beneficiaries interviewed during field visits were also already familiar with the banking system before blending projects.

Whenever direct support has been provided to MSMEs through blending projects, EU grants have been instrumental in improving their capacity to deal with financial intermediaries. The capacity to deal with financial intermediaries includes both technical and financial capacities to set up bankable projects (feasibility studies, business plans, etc.), as well as the understanding of financial products proposed by FIs in order to be able to negotiate better conditions. The support provided to end beneficiaries through SUNREF is an example of the use of blending to address specific barriers to financing for the projects developed by sub-borrowers, such as the lack of energy management skills and planning capabilities. Support in making the

project bankable and assistance in the negotiations with the partner banks was also provided, at the great appreciation of the beneficiaries.

The impact of blending on financial literacy levels and take up rates of guarantees and collateral-substitute products has however been limited. Blending has funded initiatives aiming at increasing financial literacy, notably through EFSE in Moldova for example (EFSE worked jointly with the National Bank of Moldova on the edition of books about savings and booklets on how to assess the risk of loan in local currency versus foreign currency). However, in most cases, end beneficiaries of blending projects could not be considered as having a low level of financial literacy, and no impact of blending projects on that level has been mentioned by them. Regarding take up rates, there is only one case where the impact of blending (EFSE) was mentioned as regards to the level of portfolio at risk (as a proxy for take up rates of guarantees and collateral products). This impact could however not be quantified. Furthermore, this MFI offers loans without collateral, which is an additional reason of the limited impact of blending on take up rates of guarantees. From end beneficiaries' perspective, the managers interviewed have not experienced any significant difficulties in repaying their loans. There is therefore no indication of blending impact on such situation (being through financial literacy support, or any other TA provided).

Each instrument has had a specific contribution in terms of reducing finance barriers for MSMEs. TA was relevant and essential for MFIs in terms of risk assessment, development of new products, and the overall management of the institutions. It has also contributed to improve MSMEs capacity to deal with financial intermediaries. Risk capital, such as the C-shares provided to EFSE, has contributed to reduce finance barriers for MSMEs by making additional funds available for MSMEs. In a few cases, guarantee mechanisms have been relevant to have partner FIs revise their strategies towards MSMEs (for instance through the SME FF 1st loss cushion in Moldova). Regarding risk sharing mechanisms, risk capital (C-shares from EFSE), and loan guarantee (1st loss cushion from the SME-FF) could be analysed during the evaluation. Both mechanisms have worked. No moral hazard from IFIs or partner FIs have been evidenced. In the case of EFSE, private investors have been attracted to invest in the fund[159], and the risk management promoted by the IFI has contributed to limit the portfolio at risk of the fund (at the end of 2014, the PaR90 stood at 2.6%). The loan guarantee component of the SME FF has contributed to have a partner FI (PFI) in Moldova entering a more risky segment than it would have done otherwise. The portfolio at risk of the PFI was really limited (in only one case the guarantee has been used).

The extent to which blending have contributed to reduce finance barriers for MSMEs has been mixed among instruments. **The guarantee mechanism was perceived to have a higher impact on improving MSMEs access to finance compared to TA.** The survey conducted among 36 EU Delegations provides a breakdown of the perceptions toward the contribution of each blending instrument to reducing finance barriers for MSMEs. Investment grants, followed by TA, are the instruments that are considered in most cases to have highly contributed to benefits in terms of services provided to MSMEs and addressing market failures. From the field perspective, in several cases the guarantee mechanism was perceived to be more relevant to overcome finance barriers than TA. This has been mentioned by a SME FF beneficiary (preference for 1st loss cushion versus TA) in Moldova. A beneficiary of EFSE TA has also mentioned that a guarantee mechanism would be relevant, especially to operate in the agriculture segment. As regards to SUNREF, partner banks and end beneficiaries have argued that a guarantee mechanism or equity funds could be more advantageous (compared to TA) to overcome finance barriers and avoid the rejection of several projects by the partner bank.

[159] At end Q1 2016 private investment in EFSE amounted to Euro 575 million (comprising 356 million in A shares and Euro 219 million in class A notes)

7.3 Judgment criteria

JC 7.1 Blending has increased the capacity of financial intermediaries to provide financial services to MSMEs

Summary: JC 7.1 Blending has increased the capacity of financial intermediaries to provide financial services to MSMEs

- There is evidence that blending projects have contributed to increase the capacity of financial intermediaries to provide adapted financial services to MSMEs, thanks to TA and risk sharing instruments.
- This increased capacity has been reflected in the trends observed in terms of number and volumes of loans provided to MSMEs.
- There are also cases were blending projects have contributed to have financial intermediaries revise their strategies towards MSMEs.
- However, these results are more evident in microfinance sector than in the banking sector. As regards to banks, blending has mostly contributed to increase the funds available for their activities, with a mixed impact on access to finance.

Conclusion: the JC is validated. Blending, through projects dedicated to MSMEs' access to finance, has contributed to increase the capacity of financial intermediaries to provide financial services to MSMEs. EU grants have been used to provide with and to strengthen the capacities of partner FIs in terms of risk management systems to assess MSMEs. Blending has also contributed to reduce the perceived risk towards MSMEs through risk sharing schemes. This has led to an increase of the activities dedicated to MSMEs in partner FIs, and in some cases to the revision of partner FIs strategies towards MSMEs.

There is evidences that blending projects have contributed to increase the capacity of financial intermediaries to provide adapted financial services to MSMEs, thanks to TA and risk sharing instruments. Blending, through TA, has for instance contributed to have tailored risk management systems to assess MSMEs in partner financial intermediaries in several cases. In this regards, SUNREF has improved the risk assessment skills of the financial intermediaries for EE and RE loans, through the trainings funded by the EU grant and provided to financial intermediaries' staff. As a result, about half of the sub-borrowers benefiting of a SUNREF loan had not previously been a client that partner bank. These sub-borrowers would not have been considered by the bank without the training received through the project. Another example comes from Georgian MFIs funded by the regional SME Finance Facility, through the GAFF. The GAFF incorporates a first loss facility as well as technical assistance. It encourages banks to introduce or increase lending to the agricultural sector which is underserved. The performance of these 3 MFIs have undergone a very satisfying development. Among others, thanks to the TA provided by the project, the institutions have implemented efficient processes which allows them to let their agricultural portfolio constantly grow, with a portfolio at risk below 5%.

Source of information: projects application forms, progress reports, interviews with IFIs and partner financial intermediaries
Quality of evidence: strong [the finding is supported by a range of documentary sources and by interviews of various stakeholders]

This increased capacity has been reflected in the trends observed in terms of number and volumes of loans provided to MSMEs. There are indeed evidences of a positive trend in terms of number of MSMEs served, and outstanding loans to MSMEs among partner FIs that have been involved in blending projects. Regarding the SME FF for example, under the sub-component GAFF (Georgian Agricultural Finance Facility), 4 MFIs are benefiting from the credit enhancement mechanism. The loans are designed as subordinated loans to enhance the capital

resources of the MFIs. The number of agricultural clients of the MFIs has constantly risen over the course of the programme, from 2012 (loan agreement's year for the MFIs also benefitting of TA, namely Credo, Finca, and Cristal) up to 2014. In 2014, these 3 MFIs have registered an average increase of their agricultural portfolio between 5.5 and 13.5%. In Moldova, the outstanding EFSE sub-loan portfolio as well as the number of sub-loans have been increasing in partner FIs from 2007 to 2011 (it then decreased due to the crisis in the country).

Source of information: projects application forms, progress reports, interviews with IFIs and partner financial intermediaries, financial statements
Quality of evidence: strong [the finding is supported by a range of documentary sources and by interviews of various stakeholders]

There are also cases were blending projects have contributed to have financial intermediaries revise their strategies towards MSMEs. With the SUNREF project, partner banks have revised their strategy towards EE-RE small scale projects, and trainings have been organized in this regard. One of these banks for instance has received a "Best green bank" award in 2014. The strategy toward the small scale EE-RE segment would not have been implemented without the TA, nor without subsidised the credit line. Thanks to the SME FF 1st loss cushion, a leasing company in Moldova has revised its strategy and decided to work with more risky segments: now 80% of their clients are SMEs (versus 60% in 2012) because their focus has shift from individual to small business. The equipment sector for SMEs represented 10% of the portfolio, now it's 35%. The company has also developed a new product, more accessible to MSMEs than existing products. The SEFF has enabled the partner bank in Morocco to develop its activity in a new market segment, the on-lending for energy efficiency and renewable energy investments in the private sector, which wouldn't have happened without the EU grant. The incentive payments encouraged the partner bank to actively engage in developing this new business segment, by covering part of the initial investment costs for entering into a new business activity. The project has also provided a comprehensive technical assistance which was crucial for the bank and has led for instance to the decision by the bank to replace one of its product by a MorSEFF based financial product. The TA was however not funded by the EU grant.

Source of information: interviews with IFIs and partner financial intermediaries, financial statements
Quality of evidence: more than satisfactory [the finding is strongly supported by interviews of various stakeholders, but there is limited documentation and quantitative analysis to confirm]

However, these results are more evident in microfinance sector than in the banking sector. As regards to banks, blending has mostly contributed to increase the funds available for their activities, with a mixed impact on access to finance. Blending has contributed to have shifts in strategies of MFIs in terms of entering new market such as agriculture, whereas this has been observed only in one case among partner banks. Regarding the SME FF for instance, there is evidence that the grant and its components (TA, individual and portfolio guarantee) helped MFIs to enter agriculture segment, especially in Georgia. However, the first loss cushion did not get partner banks in the country to shift their risk parameters and accept more risky clients. There is also no evidence of an impact of EFSE on partner banks' strategy toward MSMEs neither in Georgia nor in Moldova, whereas this has been observed in partner MFIs. Furthermore, EFSE has contributed to strengthen the microfinance sector in the region, and in Moldova in particular, with TA provided to MFIs notably in terms of risk assessment and sound corporate governance, whereas no TA has been provided to partner banks. Apart from the SUNREF and SEFF projects (banks entering the small scale/private EE-RE market segment), partner banks have mostly valued the credit lines related to blending projects than other components (especially TA). As a result,

where the banking system was highly liquid as was the case in Georgia, there is little evidence of added value of EFSE funds on drawing in financially excluded borrowers within the broad scope of agricultural lending. Whereas in Moldova, there was an added-value given the banking sector crisis (see also EQ 4, i4.3.1)

Source of information: interviews with IFIs and partner financial intermediaries
Quality of evidence: more than satisfactory [the finding is strongly supported by interviews of various stakeholders, but there is limited documentation and quantitative analysis to confirm]

JC 7.2 –Blending improved the capacity of MSMEs to deal with financial intermediaries

Summary: JC 7.2 Blending improved the capacity of MSMEs to deal with financial intermediaries

- There is evidences that EU grants were directly instrumental in improving MSMEs capacity to deal with financial intermediaries.
- The impact of blending on financial literacy levels was however limited.
- There is also limited evidences of blending impacts on take up rates of guarantees and collateral products.

Conclusion: the JC is partly validated. There are cases where blending has contributed to improve MSMEs capacity to deal with financial intermediaries, especially when TA has been provided to prepare project documents for funding. However, blending impact on financial literacy levels (in terms of knowledge of financial products available on the market, identification of financial needs, etc.) and take up rates of guarantees could not be strongly confirmed.

There is evidences that EU grants were directly instrumental in improving MSMEs capacity to deal with financial intermediaries. The EU grants has been directly involved in improving access to finance for MSMEs. SUNREF has addressed specific barriers to financing for the projects developed by sub-borrowers, such as the lack of energy management skills and planning capabilities, and the lack of capacity for project development and implementation. Support in making the project bankable and assistance in the negotiations with the partner banks was also provided. The TA work has been much appreciated by local actors.

Source of information: interviews with IFIs, partner financial intermediaries and MSMEs managers
Quality of evidence: more than satisfactory [the finding is strongly supported by interviews of MSMEs, IFIs and partner FIs, but there is limited documentation and quantitative analysis to confirm]

The impact of blending on financial literacy levels was however limited. Blending has funded initiatives to increase financial literacy. In Moldova for example, EFSE worked jointly with the National Bank of Moldova on this issue (edition of books about savings, booklets on how to assess the risk of loan in local currency versus foreign currency, etc.). However, the beneficiaries of blending projects could not be considered as having a low level of financial literacy. From the discussions and surveys to MSMEs managers in Moldova, it appeared their level of financial literacy was not limited, as they were able to compare offers from different banks (either by being client of other institutions, or by conducting research on internet). In only one case, the choice of the financial institution was made upon recommendation, with no comparison to other existing financial products available on the market. No impact of EFSE on their financial literacy level was mentioned. Furthermore, regarding SUNREF, several managers already had a high level of financial literacy and were already familiar with the banking system before the project.

Source of information: interviews with IFIs and partner financial intermediaries
Quality of evidence: more than satisfactory [the finding is supported by interviews of various stakeholders, but there is limited studies to confirm the impact of the actions undertaken]

There is also limited evidences of blending impacts on take up rates of guarantees and collateral products. Take up rates are used here to provide an indication of blending impact on MSMEs capacity to deal with FIs. Indeed, blending is expected to contribute to an decrease of take up rates as, thanks to the received TA and financial literacy support, end beneficiaries are expected to be able to choose the financial products and offers most adapted to their needs, which should

lead to limited default rates and guarantees realisations. The portfolio at risk has been used as a proxy for take up rates, as blending is expected to encourage partner FIs to enter/work more in a risky business (MSMEs) by providing them with tools/TA to limit the potential negative impact on their performances (especially in terms of risk management). The results indicate that except for MFIs, blending has not impacted partners' take up rates (no impact on risk management policies and therefore on the portfolio at risk). For MFIs, impacts on risk management policies have been observed, and there is only one case where a link has been actually made between blending and the portfolio at risk (EFSE in Moldova). However, the extent to which the TA received by the Moldovan MFI through EFSE had impacted the PAR30 could not be quantified by the partner. Furthermore, in that particular case, the MFI offers loans without collateral, which is an additional reason of the limited impact of blending on take up rates of guarantees. From the perspective of end beneficiaries, no difficulties in reimbursing loans as been reported by the managers interviewed. There is therefore no indication of blending impact on such situation (being through financial literacy support, or any other TA provided).

Source of information: interviews with IFIs, partner financial intermediaries and MSMEs managers
Quality of evidence: more than satisfactory [the finding is strongly supported by interviews of various stakeholders, but there is limited documentation and quantitative analysis to confirm]

JC 7.3 – Each blending instrument has had a specific contribution to the improvement of MSMEs' access to finance

Summary: JC 7.3 Each blending instrument has had a specific contribution to the improvement of MSMEs' access to finance

- Each instrument has had a specific contribution in terms of reducing finance barriers for MSMEs.
- The extent to which blending have contributed to reduce finance barriers for MSMEs has been mixed among instruments.
- When available, the guarantee mechanism was perceived to have a higher impact on improving MSMEs access to finance compared to TA.

Conclusion: JC is validated. The contribution of blending to the improvement of MSMEs access to finance varied among the instruments. In several cases, one instrument was perceived by the beneficiaries to be more relevant compared to others.

Each instrument has had a specific contribution in terms of reducing finance barriers for MSMEs. TA was relevant and essential for MFIs in terms of risk assessment, development of new products, and the overall management of the institutions. It has also contributed to improve MSMEs capacity to deal with financial intermediaries. Risk capital, such as the C-shares provided to EFSE, has contributed to reduce finance barriers for MSMEs by making additional funds available for MSMEs. Guarantee mechanisms have been relevant to have partner FIs revise their strategies towards MSMEs (for instance through the SME FF 1st loss cushion in Moldova).[160]

Source of information: project application forms, progress reports, interviews with IFIs, partner financial intermediaries and MSMEs managers
Quality of evidence: more than satisfactory [the finding is strongly supported by project documents and interviews of various stakeholders, but there is a limited number of cases per instrument]

The extent to which blending have contributed to reduce finance barriers for MSMEs has been mixed among instruments. According to the survey conducted among 36 EU Delegations, the investment grant is the instrument which is perceived to have the highest level of benefits in terms of addressing finance barriers for MSMEs compared to other blending instruments. MorSEFF has contributed to increase the affordability of loans for end-borrowers and leveraged investments by the enterprises, especially as far as energy efficiency was concerned. Funds have been on-lended at commercial rates so as to avoid introducing pricing distortions on the wider loan market. Instead, MorSEFF provided investment incentives (in the range of 5% to 15% of the sub-loan amount), funded by the EU grant, to sub-borrowers. These payments encouraged enterprises to prioritise energy investments (e.g. investments in new equipments enabling enterprises to reduce their energy-related production costs). When interest rate subsidy was used, the benefits were considered to be mainly moderate than high in terms of addressing market failures towards MSMEs access to finance. This statement could however not be confirmed through the projects of the sample.

Source of information: survey to EUDs, interviews with IFIs, partner financial intermediaries and MSMEs managers
Quality of evidence: more than satisfactory [the finding is strongly supported by project documents and interviews of various stakeholders, but there is a limited number of cases per instrument]

[160] In addition, the EIB window of the SME FF has consisted in a credit enhancement provided in the form of interest-free loans (EU grant co-financing up to 10% of the EIB loan, to be used as a 0% interest-bearing portion of the EIB loan). See EQ 4 (i4.2.2). The impact of this mechanism on end beneficiaries could not be confirmed.

When available, the guarantee mechanism was perceived to have a higher impact on improving MSMEs access to finance compared to TA[161]. As previously stated, there is evidences that TA was relevant and essential to improve partner FIs to deal with MSMEs. The results of the survey previously mentioned also confirm the significant role of TA in terms of reducing finance barriers for MSMEs. However, in several cases the guarantee mechanism was perceived to be more relevant to overcome finance barriers. This has been notably mentioned by a SME FF beneficiary (preference for 1st loss cushion versus TA) in Moldova. Furthermore, a beneficiary of EFSE TA has mentioned that a guarantee mechanism would be relevant, especially to operate in the agriculture segment. As regards to SUNREF, TA was certainly needed and relevant. Nevertheless, for MSMEs where the technical capacity was already there, and the familiarity with banks as well, another instrument, such as a guarantee mechanism or equity funds, could be more advantageous (compared to TA), as argued by partner banks and end beneficiaries. Indeed, the IFI guarantee mechanism (ARIZ) had to be used for some of the projects funded through SUNREF. For other projects, the lack of equity have conducted to their rejection by the partner bank, despite the certificate provided by the TA.

Source of information: interviews with IFIs, partner financial intermediaries and MSMEs managers
Quality of evidence: more than satisfactory [the finding is strongly supported by project documents and interviews of various stakeholders, but there is a limited number of cases per instrument]

[161] Projects that used guarantee in comibantion with TA brought addtional advantages, as highlighted under EQ 4 (i4.3.2)

7.4 Indicator analysis

JC 7.1 Blending has increased the capacity of financial intermediaries to provide financial services to MSMEs

I-7.1.1 & I-7.1.2 Availability of a tailored risk management system to assess MSMEs & Availability of a guarantee scheme to substitute for lack of collateral of MSMEs

Blending projects have contributed to have tailored risk management systems to assess MSMEs in partner banks in several cases. SUNREF has for instance improved the risk assessment skills of the financial intermediaries for EE and RE loans, through the trainings funded by the EU grant and provided to financial intermediaries' staff. The TA was focused on the understanding of the operational, technical and financial information of the projects. In this regard, the activities of experts of the Regional Technical Assistance Programme (RTAP) included: i) assisting the banks in thoroughly assessing the risks of the projects brought to them by the investors, and ii) enabling the banks to build up their financial and technical expertise through the appraisal of the projects. (Source: AFD, Grant application cover sheet, 2013). Training on the appraisal of Renewable Energy and Energy Efficiency projects has been provided by the RTA team to the participating banks. As an example, during phase I, 11 staff has been trained in one of the partner bank in Kenya. About half of the sub-borrowers benefiting of a SUNREF loan had not previously been a client that partner bank. These sub-borrowers would not have been considered by the bank without the training received through the project. (Source: see Kenya Country note)

Another example is provided by the SME FF. Its risk sharing mechanism has increased the willingness of the financial intermediaries to provide services to more risky clients. The project objectives include: rebuild financial intermediaries' confidence to extend financing to SMEs, including micro-enterprises, following the financial crisis, and enhance financial intermediaries' capacity to assess and monitor the related risks and manage their SME financing. In this regard, TA is perceived as critical to introduce or reinforce lending methodologies and skills for the SME segment, including organisational restructuring where appropriate, introduce best-practice risk management procedures (including strengthening portfolio monitoring and corporate recovery tools in these PFIs), bring about improvements in automation and technology and introduction of tailored products to meet the needs of SMEs. (Source: EU, Contribution agreement, 2010). The partner encountered in Moldova has mentioned that thanks to the 1st loss cushion, it has changed its risk policy, and decided to serve more risky clients (now 80% of their clients are SMEs (versus 60% in 2012) because their focus has shift from individual to small business). In Georgia, through the SME FF, MFIs have benefitted from TA (trainings) and have implemented efficient processes toward MSMEs in the agricultural segment. Among others, thanks to the ongoing support by the consultants, the institutions have enhanced their internal trainings and implemented efficient processes which allows them to let their agricultural portfolio constantly grow (with PaR <5%). (Source: EBRD, 2014 Annual Progress Report on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015; Moldova and Georgia Country notes).

Regarding the SEFF, technical support (not financed with the NIF contribution) has been provided to the participatory bank by an independent consulting firm, especially to assess the technical quality of energy efficiency and renewable energy investment projects submitted to the bank. This has been highly appreciated by the bank, which is typically unfamiliar with appraising technical projects. The technical support also enabled the bank to structure its marketing offer in line with the needs of the market. It typically helped the bank with product design and the establishment of necessary procedures, tools and structures for financing energy efficiency improvements (Source: Morocco Country note).

Finally, EFSE has also improved risk assessment systems towards MSMEs in financial intermediaries. In Moldova for instance, EFSE has contributed to strengthen the microfinance sector, which is less regulated compared to the banking sector in the country. TA has been provided to MFIs in terms of risk assessment, sound corporate governance, etc. One of the partner financial institution of EFSE has beneficiated from 7 tailored TA projects, including in MSE lending. However, the impact of blending project on partner financial intermediary is uneven depending on the partner bank's profile. It indeed appeared that blending had a limited impact on big and well-established financial intermediaries. In Georgia for instance, the main partner FI of EFSE has mentioned that blending funds have not impacted its strategy towards MSMEs. Regarding the SME FF, partners have mentioned that the first loss cushion (guarantees) has not influenced their risk parameters towards MSMEs significantly. It was also not evidenced that the beneficiaries were the smallest and the most excluded MSMEs. (Source: Moldova and Georgia Country notes)

I-7.1.3 - I-7.1.6 Number of products dedicated to MSMEs (trends), outstanding loans to MSMEs (trends), branches (trends in the accessibility of products for MSMEs), and value of outstanding loans to MSMEs (trends)

There are evidences of a positive trend in terms of number of MSMEs served, and outstanding loans to MSMEs among partner FIs that have been involved in blending projects. Regarding the SME FF for example, under the sub-component GAFF (Georgian Agricultural Finance Facility), 4 MFIs are benefiting from the credit enhancement mechanism. The loans are designed as subordinated loans to enhance the capital resources of the MFIs. The number of agricultural clients of the MFIs has constantly risen over the course of the programme, from 2012 (loan agreement's year for the MFIs also benefitting of TA, namely Credo, Finca, and Cristal) up to 2014. In 2014, these 3 MFIs have registered an average increase of their agricultural portfolio between 5.5 and 13.5%. In Moldova, the SME FF 1st loss cushion has contributed to the decision of a partner FI to implement a new leasing program (in transportation), in which the minimum advance (which is a barrier for MSMEs) for the clients would be significantly reduced compared to the current situation in the market (from 40% to 10-20%). (Source: EBRD, 2014 Annual Progress Report on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015; Moldova Country note). In Morocco, the SEFF (MorSEFF) enabled the partner bank to develop its activity in a new market segment by promoting on-lending for energy efficiency and renewable energy investments in the private sector. The incentive payments encouraged the partner bank to actively engage in developing this new business segment, by covering part of the initial investment costs for entering into a new business activity. In one year (April 2015-April 2016), the credit line of the bank (EUR 20 million) has been fully engaged (around 50 enterprises having benefited from the credit line). With MorSEFF providing a comprehensive technical assistance which is crucial for the bank, the bank has decided to replace its own product called Energico by a MorSEFF based financial product. (Source: Morocco Country note)
EFSE has been launched to face the consequences of the global financial crisis in targeted countries. The global financial crisis had indeed produced severe strain on the economies of the ENR, with international actors withdrawing from the ENR. MSMEs were particularly affected, and access to finance had become very critical. Financing Institutions in the region were suffering from the breakdown of local and international capital markets. In this context, EFSE has since its creation made the difference compared to other actors in its target countries by remaining "a beacon of stability" in these uncertain times. (Sources: EFSE, Portraits of progress – Annual report 2014, 2015; KfW, Contribution Request nr E1, 2009; KfW, ENBF funding proposal to the EU).

At year-end 2014, the EFSE outstanding sub-loan portfolio was EUR 798.5 million. During 2014, the Fund financed more than 120,000 sub-loans at a total amount of EUR 835.9 million. (Source:

KfW, Annual narrative report of 2014, 2015). The overall 2014 average sub-loan amount disbursed was EUR 6,917, which is below the microfinance threshold for the EFSE region (EUR 20 thousands) and points out that the Fund clearly reaches less privileged market segments. Furthermore, during 2014 the agricultural sector has received the largest share of the amounts disbursed (31%). (Source: KfW, Annual narrative report of 2014, 2015). To illustrate, EFSE has provided medium and long term loans, including in local currency (up to 5 years, for local currency is 4 years) in Moldova, which was determinant for reaching the most vulnerable MSMEs. A partner FI has also received 3 senior loans in local currency from EFSE since 2010, for MSE financing. The outstanding EFSE sub-loan portfolio as well as the number of sub-loans have been increasing in partner FIs from 2007 to 2011. It then decreased due to the crisis in the country. The average sub-loan amount over the period 2007-2014 was EUR 3,930, which is far below the microfinance threshold for the EFSE region. (Source: Moldova Country note)

I-7.1.7 Value of deposits portfolio in financial intermediaries (trends in savings mobilisation)

Not all the partner FIs are allowed to collect deposits from their clients. The EFSE partner MFI in Moldova for instance do not collect deposits, whereas the partner commercial bank does. The SUNREF partner FI also collect deposits, as a commercial bank. No impact of blending projects on depositors' behaviour and trends in savings mobilisation has however emerged from the survey and field interviews. (Source: financial intermediaries' interviews in Kenya, Georgia and Moldova)

JC 7.2 Blending has improved the capacity of MSMEs to deal with financial intermediaries

I-7.2.1 & I-7.2.2 Value of TA services (€ spent) and Number of micro and small businesses advised by TA service

Total EU funding allocated to supporting MSMEs' access to funding reached more than EUR 130 million. Investment Grants (20.1%) and Technical Assistance (19.3%) are the types of support most commonly provided. Out of the 19 projects, there are 36% where combined packages were used, which represent EUR 48 million (37% of the EU total contribution for improving MSMEs financial access). The package used are TA plus risk capital, TA plus guarantee, and TA plus grant. Technical Assistance is part of all the combined packages proposed in the field of MSMEs financial access. The amount dedicated to pure TA represented about EUR 25 million.

Instrument	% of total amount
Grant	20.1%
TA	19.3%
Risk capital	15.9%
Guarantee	7.8%
TA/Risk Capital	15.0%
TA/Guarantee	12.6%
TA/Grant	9.4%
Total	100%

Source: ADE based on the Secretariats of the Facilities

The provision of TA has proven to be highly successful and appreciated by the beneficiaries (both partner FIs and MSMEs). Regarding our sample, only SUNREF had TA dedicated to direct

support to small businesses. The Regional Technical Assistance Programme (RTAP) was set up in order to address the main barriers which constrain the development of the EE/RE market, through the various activities including assisting the sponsors in carrying out the first feasibility study and in preparing their project presentation to potential financiers. (Source: AFD, ITF application supporting document – Annex 1, 2013; Kenya Country note) The TA work of the RTAP has been much appreciated by local actors. It aimed at improving the projects' quality by addressing specific barriers to financing projects developed by sub-borrowers such as the lack of energy management skills and planning capabilities, and the lack of capacity for project development and implementation. (Source: AFD, Grant application cover sheet, 2013) As a result, the existence of the RTAP created a lot of expectations and more than forecast promoters rushed to take benefit from the technical and financial assistance. Therefore the size of the technical and financial assistance was not designed at the level of the actual needs. (Source: AFD, Additional Information following the discussions at the 27th Executive Committee, 2013). 69 sponsors have been trained, mostly in Kenya, and 4 seminars and trainings have been organized. The budget dedicated to short term expertise and technical support notably for the first 1st phase was fully committed by the end of the period. (Source: AFD, Additional Information following the discussions at the 27th Executive Committee, 2013; Kenya Country note).

I-7.2.3 Financial literacy indicators (awareness, knowledge of products, number of MSMEs with bank account, bank loan)

The impact of blending on financial literacy levels appeared to be limited. Through SUNREF, managers have received support in making their projects bankable, and this was perceived as valuable. However, several managers already had a high level of financial literacy and were already familiar with the banking system. The choice of the bank was imposed by the project (only the banks involved in the partnership). As the number of banks involved has now increased from phase I (Cooperative bank) to phase II (5 banks: Commercial Bank of Africa, Chase Bank, Cooperative Bank, Diamond Trust Bank and Standard Charter), several managers have decided to not work anymore with Cooperative Bank. They were for instance upset with the fact that the Bank charged them additional costs related to the guarantee mechanism for instance (ARIZ), whereas it was at no cost for the bank. (Source: Kenya Country note)

EFSE is involved in financial literacy activities, and improvement in this regard have occurred in Moldova over the last years (we don't have the results of a survey conducted in this regards for EFSE). From the interviews of MSMEs managers, in most cases the financial literacy is not limited, as they were able to compare offers from different banks (either by being client of other institutions, or by conducting research on internet). Furthermore, they have not receive specific technical assistance, except the fliers developed by EFSE and distributed by partner FIs. (Source: Moldova Country note)

I-7.2.4 Take up rates of guarantees and collateral-substitute products

There is limited evidences of impacts on take up rates of guarantees and collateral products, especially because the partner FIs had a limited portfolio at risk thanks to their risk policies. Except for partner MFIs, these policies have not been implemented through blending projects. In the case of the SME FF for instance, the portfolio at risk of the partner FI in Moldova was limited. As a result, only 50% of the 10% loss cushion has been used, for a client involved in meal and honey. The current PAR30 (2015) of the partner is 4.5%. This partner has not beneficiated from TA through the project. In Georgia, a partner FI mentioned that the first loss cushion was the last resort in case of problem, given the transaction costs (time, procedures, etc.) compared to the amounts at stake (EUR 35-50 thousands on a EUR 10 million portfolio). Regarding EFSE, the

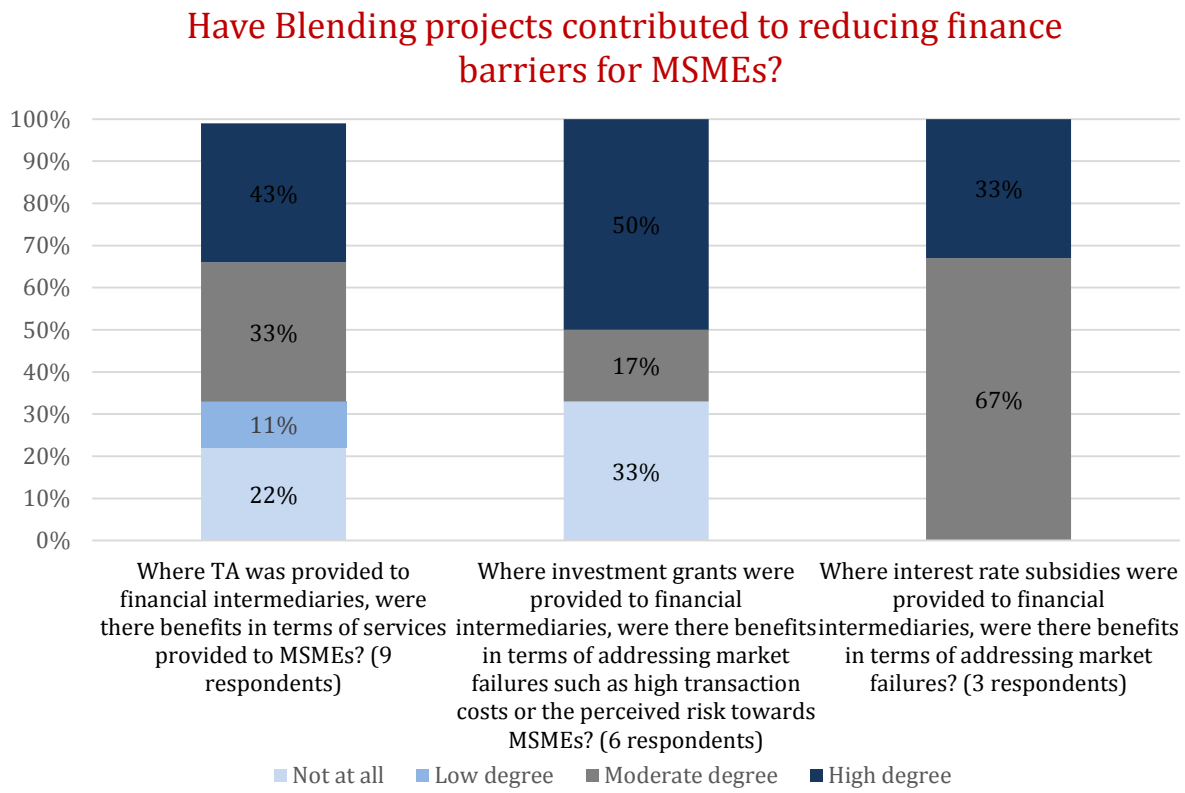
PAR 30 of the partners in Moldova have decreased over the period, but not in a regular way. The MFI partner had an average PAR30 over the period 2008-2014 of 10.3% (with the highest level reached in 2010 at 15.6%, and the lowest in 2013 at 6.1%). Focusing on its EFSE sub-portfolio, the average PAR 30 over the same period was 2.2% (max. 10.5% in 2010 and min. 0% in 2008, 2009 and 2010). The high level of PAR30 observed in 2010 could be explained by the macroeconomic context (the on-going economic and financial crisis in the country at that time). The TA received through EFSE has impacted the level of the PAR30 of that MFI, but the extent to which it did so could not be quantified by the partner. An additional reason of the limited impact of blending of take up rates of guarantees is the fact that partners provide loan without collateral. In Moldova, one EFSE partner (the MFI) offers loans without collateral for several reasons, including the expensive and time consuming process to register properties, and the difficulty to liquidate properties in rural areas. For the second partner FI (bank), the average PAR 30 over the period 2008-2014 was 2.5% (with a max. of 6% in 2013 and min. 0.5% in 2008 and 2009). Regarding its EFSE sub-portfolio, the average over the period 2009-2014 was 0.9% (with a max. of 2.1% in 2013, and a min. of 0.1% in 2014). This partner has not beneficiated from TA. (Source: Georgia and Moldova Country notes).

JC 7.3 Each blending instruments has had a specific contribution to the improvement of MSMEs' access to finance

I-7.3.1 Contribution of investment grants to the improvement of MSMEs' access to finance

According to the survey conducted among 36 EU Delegations, the investment grant is the instrument which is perceived to have the highest level of benefits in terms of addressing finance barriers for MSMEs compared to other blending instruments. The survey has indeed revealed that where investment grants were provided to financial intermediaries, the benefits in terms of addressing market failures (such as high transaction costs or perceived risks towards MSMEs) were perceived to be high for 50% of the respondents, whereas it is mainly perceived to be moderate for other instruments. (cf. Figure 8).

Figure 8 - Survey response on blending contribution to reducing finance barriers



Source: ADE, EU Delegations survey on Blending, 2016

The EU grant used for incentive payments through MorSEFF increased the affordability of loans for end-borrowers and leveraged investments by the enterprises, especially as far as energy efficiency is concerned. Funds have been on-lended at commercial rates so as to avoid introducing pricing distortions on the wider loan market. Instead, MorSEFF provided investment incentives (in the range of 5% to 15% of the sub-loan amount) to sub-borrowers. These payments encouraged enterprises to prioritise energy investments (e.g. investments in new equipments enabling enterprises to reduce their energy-related production costs). Interviews conducted during the field mission among end borrowers have confirmed that the grant has indeed increased the affordability of the loans for them (Source: Country note Morocco).

I-7.3.2 Contribution of interest rate subsidy to the improvement of MSMEs' access to finance

In the survey mentioned above, the respondents that replied to the question about the contribution of the interest rate subsidy on reducing finance barriers for MSMEs reported that where such instrument was used, there were moderate (67%) to high (33%) benefits in terms of addressing market failures towards MSMEs access to finance (cf. Figure 8). This statement could however not be confirmed through the projects of the sample.

I-7.3.3 Contribution of TA to the improvement of MSMEs' access to finance

There is evidences that TA was relevant and essential to improve partner FIs capacities to deal with MSMEs. TA provided through SUNREF for instance was essential to improve banks capacity to deal with EE-RE small scale projects. In Georgia and Moldova, the TA provided through the SME FF and EFSE Development Fund was relevant for MFIs in terms of risk assessment, development of new products, and the overall management of the institutions. (Source: Kenya, Moldova and

Georgia Country notes). The results of the survey previously mentioned also confirm the significant role of TA in terms of reducing finance barriers for MSMEs, as it was reported that where TA was used, there were moderate (33%) to high (43%) benefits in terms of services provided by financial intermediaries to MSMEs (cf. Figure 8).

I-7.3.4 Contribution of risk capital to the improvement of MSMEs' access to finance

There is some evidence that blending projects have contributed to reduce finance barriers for MSMEs thanks to risk capital grants: NIF grant C-shares in EFSE have contributed to reduce finance barriers for MSMEs by attracting private A shares at fund level and make FX funds available for MSMEs. At Fund level, EU 'C' shares have attracted over €400 million in specialist private funding for EFSE. (Source: Georgia Country note)

I-7.3.5 Contribution of guarantees to the improvement of MSMEs' access to finance

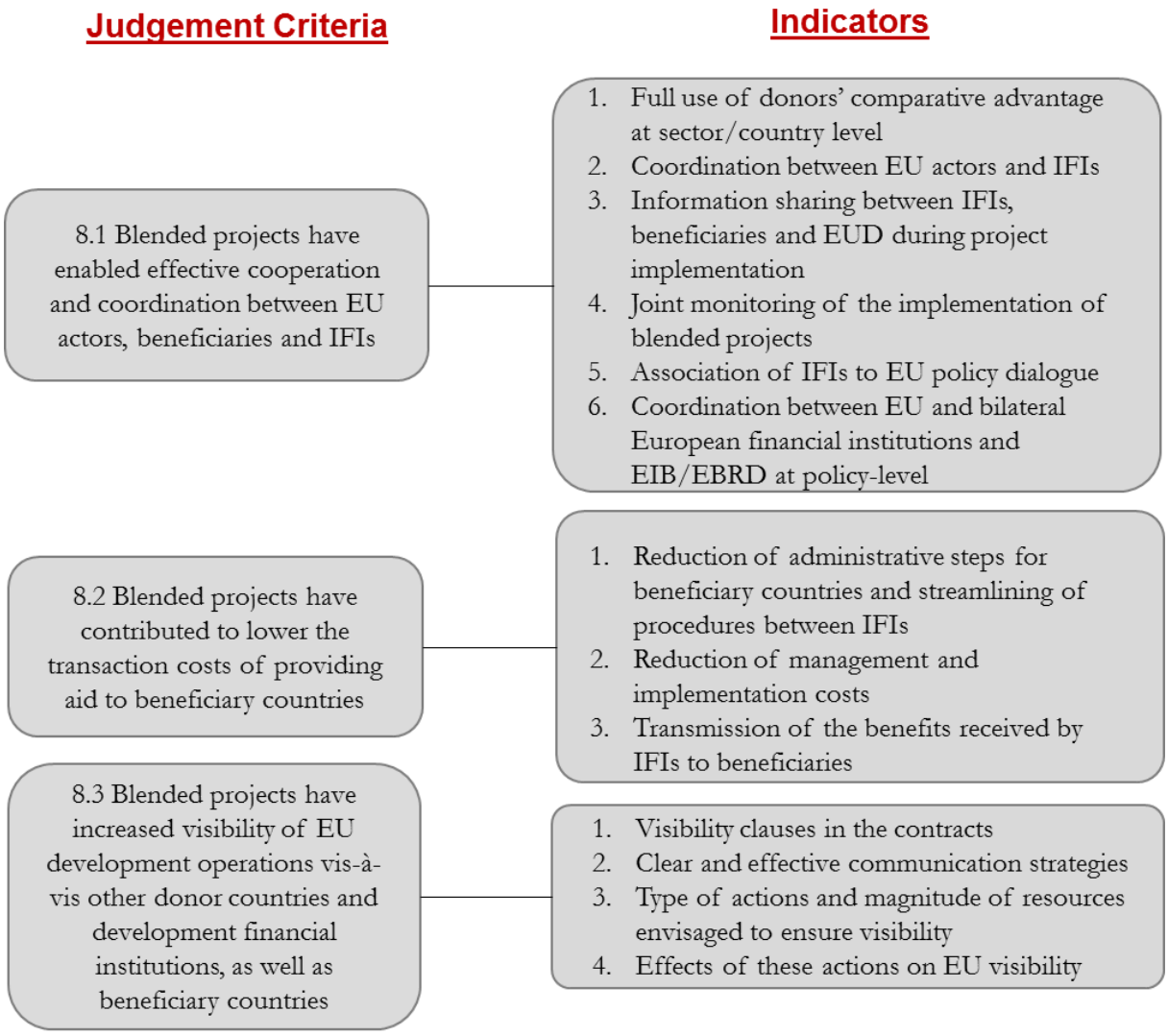
Guarantee mechanisms have been relevant to have partner FIs revise their strategies towards MSMEs (for instance through the SME FF 1st loss cushion in Moldova and TA in Georgia). When available, the guarantee mechanism is perceived to have a higher impact on partner FIs strategy toward MSMEs compared to TA. This has been notably mentioned by a SME FF beneficiary (preference for 1st loss cushion versus TA) in Moldova. Furthermore, an EFSE beneficiary has mentioned that a guarantee mechanism would be relevant, especially as it operates in agriculture. As regards to SUNREF, TA was certainly needed and relevant. However, for MSMEs where the technical capacity is already there, and the familiarity with banks as well, another instrument, such as a guarantee mechanism, could be more advantageous (compared to TA). (Source: Kenya, Georgia and Moldova Country notes)

Judgement criteria information availability (go to indicator level if needed)	
1= low – 5 = high	
JC 7.1	4 (more than satisfactory to strong)
JC 7.2	4 (more than satisfactory)
JC 7.3	4 (more than satisfactory)

Hypotheses to be tested in the field	**Evidence**
▪ FIs have improved their capacities in terms of assessing MSMEs' risk	▪ Confirmed for all the projects visited – especially in the case of MFIs (compared to banks)
▪ FIs have developed a strategy or revised their existing strategies towards the MSME segment (new products, specific trainings, new branches, etc.)	▪ Confirmed for all the projects visited – especially in the case of MFIs (compared to banks)
▪ TA have contributed to improve financial literacy levels among MSMEs' managers	▪ Partly confirmed through field visits –only a few indications have been mentioned in this regard
▪ Take up rates of guarantees and collateral-substitutes products have decreased	▪ Partly confirmed through field visits – only limited indications have been mentioned in this regard
▪ Advantages to use one instrument or another in terms of improving FIs capacity to deal with MSMEs	▪ Confirmed – blending instruments are not perceived to have had the same advantages
▪ Advantages to use one instrument or another in terms of improving MSMEs capacity to deal with FIs	▪ Confirmed – blending instruments are not perceived to have had the same advantages

8 EQ 8: Aid effectiveness and visibility

To what extent have blended projects promoted coordination between European aid actors, lowered aid transaction costs and enhanced visibility of EU aid?



8.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

Methodological approach
1. Examine whether blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs: ▪ Assess, through project level documentation review (grant applications/contracts) and interviews with key stakeholders whether blended projects have been designed with a view to take advantage of the comparative advantage of other donors at sector/country level ▪ Assess, through project level review (grant applications/contracts) and interviews, whether projects were prepared in close coordination between EU actors and IFIs: for instance, have IFIs shared their projects' pipeline and feasibility studies with the EUD? ▪ Assess, through project level review (project monitoring and completion reports) and interviews, whether IFIs, beneficiaries and EUD shared information between them during project implementation ▪ Assess, through project level review (project monitoring and completion reports) and interviews, whether IFIs and EUD conducted joint missions and used joint monitoring systems ▪ Assess, mostly through interviews, whether the EUD associated IFIs to its policy dialogue (for relevant sectors)
2. Examine whether blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries: ▪ Assess, through interviews with beneficiary countries, whether going for blending contributed to reduce the administrative steps for beneficiary countries (compared to going for individual projects with various donors) ▪ Discuss through interviews with IFIs and beneficiary countries whether IFIs streamlined their procedures ▪ Assess, through project level review (project monitoring and completion reports) and interviews whether the channelling of resources through blending has led to a reduction of management and implementation costs for beneficiaries and IFIs ▪ Assess whether IFIs have passed on the benefits they received from blending to the beneficiaries (reduced risk premium or credit spread)
3. Examine whether blended projects have increased visibility of EU development operations vis-à-vis other donor countries and development financial institutions, as well as beneficiary countries: notably assess, through project level documentation review (grant applications/contracts, monitoring and completion reports) and interviews, whether: ▪ Visibility clauses have been included in the contracts of blended projects ▪ Clear and effective communication strategies have been foreseen and implemented ▪ Specific actions and resources were envisaged to ensure visibility ▪ These actions have had effects on EU visibility vis-à-vis other IFIs and donor countries

Rationale for the EQ:

In promoting joint channelling of aid resources, blending mechanisms are seen as a way to contribute to the implementation of the aid effectiveness agenda (agreed in Paris and Accra) and to increase the visibility of EU development aid in partner countries. This question analyses the extent to which blended projects have (i) promoted cooperation between aid actors, (ii) contributed to lower aid transaction costs and (iii) led to an increased visibility of EU aid.

Detailed sample of projects

The approach for data collection and analysis relied on general-level data collection and on the in-depth analysis of a selection of 18 blended projects. This selection took into account the cases highlighted during the interviews led with the IFIs in headquarters. The team examined the contribution of blending against two key aspects of aid effectiveness: i) increased donor coordination and ii) in turn reduction of the transaction costs of providing aid. For the assessment of visibility, the team undertook general-level documentary review and systematically checked visibility aspects for 23 projects (approved between 2008 and 2013) from the sample selected for the desk study.

Selected for EQ8	Covered for visibility	Project #	Project abbreviation	Title	Facility	Lead IFI	Country	Year	Total amount from EU budget M€
1	1	1	ENER/C.Intercon/NA-ZM	Caprivi Interconnector	ITF	EIB	Namibia, Zambia	2008	15 000 000
1	1	2	ENER/WAPP/REG	Update of the WAPP Masterplan	ITF	EIB	Western Africa	2009	1 306 624
	1	3	ENER/ERERA/REG	ECOWAS Electricity Regulation (ERERA)	ITF	AFD	Western Africa	2008	1 700 000
	1	4	TRANS/PortWalvis/NA	Expansion of Port of Walvis Bay	ITF	KfW	Namibia	2009	280 612
1	1	5	TRANS/MasterPlan/NA-REG	Namibian Transport Master Plan	ITF	EIB	Namibia, South Africa, Botswana, Angola, Congo, the Democratic Republic of the, Zambia, Zimbabwe	2010	494 901
1	1	9	TRANS/MetroRehab/AM	AM-01 Yerevan Metro Rehabilitation	NIF	EBRD	Armenia	2010	5 000 000
1	1	10	TRANS/PublicTrans/MD	MD- 03 Chisinau Public Transport Project	NIF	EBRD	Moldova	2010	3 000 000
	1	11	WASH/IWSS/MD	EBRD-06 Feasibility Study for the Improvement of Water and Sanitation Systems in Chisinau	NIF	EBRD	Moldova	2009	3 150 000
1	1	12	IND/SME Facility/REG	EBRD-13 SME Facility - EBRD / KfW window	NIF	EBRD	Regional-NIF	2010	10 200 000
1	1	14	WASH/IWSP/EG	EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	NIF	KfW	Egypt, Arab Rep.	2008	5 000 000
1	1	15	ENER/O.SolarPlant/MA	Ouarzazate Solar Plant – First Phase	NIF	EIB	Morocco	2011	30 000 000
1	1	19	MULTI/SustDev/CO	LAIF contribution to the project "Towards a sustainable development of cities and regions in Colombia"	LAIF	AFD	Colombia	2013	5 200 000
1	1	20	WASH/IWRM/CO	"Support to the Integrated Water Resources Management (IWRM) in Colombia"	LAIF	AFD	Colombia	2013	4 650 000
1	1	26	TRANS/Corridor/MZ	Beira Corridor	ITF	EIB	Regional-ITF	2008	17 828 380
1	1	29	TRANS/RoadRehab/MD	MD-02 Moldova Road Rehabilitation project	NIF	EBRD	Moldova	2008	12 000 000
1	1	30	WASH/PNA-ONEP/MA	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I	NIF	AFD	Morocco	2010	10 000 000
1	1	31	ENER/PowerTrans/EG	EG-03 Egyptian Power Transmission	NIF	EIB	Egypt, Arab Rep.	2010	16 000 000
1	1	32	ENER/Wind Farm/EG	EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	NIF	KfW	Egypt, Arab Rep.	2008	10 000 000
	1	34	OTHER/TA Munic/UA	EBRD-01 Technical Assistance Support for Ukrainian Municipalities	NIF	EBRD	Ukraine	2008	5 000 000
1	1	35	ENER/SEFF/MA-JO	SEMED Regional Sustainable Energy Finance Facility : Phase 1 – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	NIF	EBRD	Regional-NIF	2013	16 830 000
1	1	36	BANK/EFSE/MC	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	NIF	KfW	Regional-NIF	2009	5 100 000
		41	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	Regional-ITF	2009	2 000 000
	1	42	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	Regional-ITF	2009	6 600 000
1	1	44	ENER/Env.Credit lines/REG	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	ITF	AFD	Regional-ITF	2010	2 000 000
18	23								

8.2 Evaluation question

Summary

- Until 2014, donor cooperation occurred mainly at preparatory stage but was not systematic and shortcomings were often noted
- The 2014 blending governance changes gave impetus for strengthened donor coordination at preparatory stage
- Blending has led to strengthened donor cooperation during project implementation
- Blending has not led to benefits in terms of reduced transaction costs – for either beneficiaries or IFIs
- Until 2014, blended projects often lacked a comprehensive communication and visibility strategy and action plan
- The visibility of the EU in the blended projects reviewed in depth remained limited
- Visibility requirements for blending operations became more demanding and structured with the changes in the blending guidance framework since 2014

Until 2014, donor cooperation occurred mainly at preparatory stage but it was not systematic and shortcomings were often noted. Until 2014, the lead FI was in the driving seat for project design; the EU received information about projects but it had little no input in the design. Close preparatory work took place between EU actors and the IFIs for only half of the cases examined in depth. But there was little evidence that the EU (EU HQ/EUDs) and IFIs made full use of donors' comparative advantage at sector/country level or defined priority areas of interventions in close coordination. Still, a few blended projects (3 out of 18) envisaged complementing other EU or EU member state support to the sector.

The 2014 blending governance changes gave impetus for strengthened donor coordination at preparatory stage. The revised decision-making processes for the blending facilities demanded and led to increased consultations over time between the EU (HQ and EUDs) and IFIs at identification and design stage. Since 2014, the relevant Blending Framework secretariat has consolidated the pipeline of projects received from the IFIs for discussion during Technical Assessment Meetings (TAMs). The EUDs became more involved in project design since 2014: they now take part to identification missions and are in charge of drafting the Technical and Administrative Provisions (TAPs) whereas previously, the lead IFI used to be responsible. This has automatically led to a stronger cooperation locally between the EUDs and the IFIs.

Blending has often led to strengthened donor cooperation during project implementation - especially for the four main European partners (EIB, EBRD, AFD, and KfW) representing the great bulk of operations approved so far. These coordination benefits arose largely the establishment of the Mutual Reliance Initiative (MRI) in 2009 between the AFD, EIB and EBRD which delegates most tasks of an operation to the lead financier and establishes mutual recognition of procedures. In addition, the EU Platform for Blending in External Cooperation (EUBEC) established on December 2012 facilitated sharing and exchange of expertise, notably within the technical groups consisting of the Commission, EEAS, FIs and a number of Member States representatives. When considering the projects examined in depth, coordination between the IFIs and the EUD was reported as being satisfactory in more than half of the cases reviewed (12 out of the 18 cases), and sometimes the projects were also coordinated with other donor interventions in the same sector.

Blending has not led to the benefits expected in terms of reduced transaction costs, for either beneficiaries or IFIs. The examination of the sample of projects shows that blending has

often had a rather negative effect on transaction costs. Most of the beneficiaries met during the country visits reported lengthy procedures (e.g. slow turnaround on decisions and no-objections from the blending IFIs) and pointed to situations where administrative requirements between IFIs have not been simplified, and overall rather high transaction costs. In two cases (WASH/IWSP/EG #14, WASH/PNA-ONEP/MA #30) the experience for the beneficiary was positive and the beneficiary was keen to replicate the same institutional set-up for future projects. In the opinion of IFIs, transaction costs were higher with blending than for traditional loan operations, notably at appraisal stage but also in terms of more complex project management procedures. Considering that blending is often essential for ensuring sufficiently concessionary financing of complex and large infrastructure projects, these costs were simply accepted by the IFIs. EUDs were of the opinion that recent changes on the preparation of NIF projects following the creation of DG NEAR early 2015 have increased transaction costs for the EUDs for the identification phase of the projects: i) the responsibilities for the NIF became relatively dispersed within DG NEAR, hereby complicating the EUD work (e.g. slowness of the HQ response on EUD requests); ii) the lead for the preparation of the projects lies within the contracts and finance section of DG NEAR that tends to be less risk-oriented than the NIF Secretariat previously in charge.

Until 2014, blended projects often lacked a comprehensive communication and visibility strategy and action plan. In the early period, visibility requirements were rather light and agreed upon informally. They are stipulated in the regulatory framework of the regional investment facilities; the main principle is that the lead financier ensures EU visibility which is at least equivalent to its own visibility. At project level, contractual arrangements on visibility have varied across facilities, from almost visibility-free in the examined ITF projects to a generic communication and visibility clause in most NIF and LAIF projects reviewed. Usually, no specific funds were set aside for communication activities in the financing agreements (contrary to the approach recommended by the 2010 EU Manual on visibility). Moreover, blending operations reviewed generally did not factor into their design specific communication strategies enhancing EU's visibility, in contrast to the 2010 EU Manual on visibility which calls for the adoption of such visibility plans.

Visibility requirements for blending operations became more demanding and structured with the changes in the blending guidance framework since 2014. In the 2014 Application Form, communication and visibility became for the first time a specific item of the indicative budget of the project. In addition, it is envisaged that the contract of blending operations includes as an annex a communication and visibility action plan discussed at preparation stage. The 2015 Guidelines on EU blending operations builds on the guidance provided in the 2010 EU Manual on Visibility 'to standardise and convey the EU's written and visual identity'. Three requirements are put forward: all actions funded by the EU should i) incorporate information and communication activities and ii) ensure EU's written and visual identity; and iii) the beneficiaries of EU support shall implement visibility provisions. Some IFIs representatives at headquarters level indicated that precise communication and visibility plans have been recently prepared during the inception stage of projects.

The visibility of the EU in blended projects remained limited. Some visibility actions were implemented in the cases examined in-depth: press-releases and other media coverage (e.g. presence at press conferences); opening ceremonies; acknowledgement of the EU support during workshops and in studies; display of EU logos on billboards; etc.). Overall EU visibility was perceived as being mixed or low in 21 projects out of 23 examined (that were approved between 2008 and 2013). Interviews with national partners and/or end-beneficiaries demonstrated that they were often well informed that the EU contributed to the financing of the projects, but the lead IFI

had the greatest visibility. The survey results also show that a majority of the EUD respondents (71%) consider that blending had a null or a low effect on increasing EU visibility. It also converges with the findings of the NIF mid-term evaluation covering the period 2007-2013 and of the 2014 report of the Court of auditors. It is worth noting that the EBRD -contrary to the other IFIs- made specific efforts to report in detail on the actions realized to provide visibility to the EU.

8.3 Judgement Criteria

JC 8.1 Extent to which blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs

Summary for JC 8.1 Extent to which blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs

- An in-depth review of a selection of 18 projects approved between 2008 and 2013 shows that close preparatory work took place between EU actors and the IFIs in half of the cases examined, but the full use of donors' comparative advantage was not maximised
- The evolution of blending decision-making processes in 2014 increased cooperation between the EU and the IFIs
- Blending, working in combination with the MRI, has shown that it can lead to strengthened donor cooperation during project implementation
- Donor coordination was reported as being satisfactory during implementation in most cases reviewed

→ JC is validated

An in-depth review of a selection of 18 projects approved between 2008 and 2013 shows that close preparatory work took place between EU actors and the IFIs in half of the cases, but the full use of donors' comparative advantage was not maximised. Blended projects did not generally make full use of donors' comparative advantage at sector/country level (I-8.1.1). Neither was there evidence to show that specific coordination systematically took place between the EU (EU HQ/EUDs) and IFIs for the definition of priority areas of interventions (I-8.1.6). Still, close coordination took place during project preparatory stages between the EU actors (EUDs/EU MSs) and the IFIs in half of the cases reviewed (9 out of 18) (I-8.1.2). For instance, project TRANS/RoadRehab/MD #29 provided evidence of cooperation between three IFIs (WB, the EIB and the EBRD) involved at the appraisal stage of the Moldovan Road Sector Program Support Project. At design stage, a few blended projects (3 out of 18) complemented other EU or EU MS support to the sector (EU's efforts to support the Government of Egypt's reform agenda in energy and water (projects ENER/PowerTrans/EG #31 and WASH/IWSP/EG #14); or EU MS support (Netherlands and GIZ) to the implementation of the IWRM policy since 2007 (project WASH/IWRM/CO #20). The design of project #26 took account of other programmes financed by the EU, EU MS and other donors so as not to duplicate.

Sources of information: Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners.

Quality of evidence: Strong.

The evolution of blending decision-making processes in 2014 increased cooperation between the EU and the IFIs. Until 2014, the lead FI was in the driving seat for project design; the EU received information about projects that it had little input into them. Blending decision-making processes have been reviewed in 2014; these changes required increased consultations over time between the EU (HQ and EUDs) and IFIs at identification and design stage to discuss the

pipeline of projects. The information on project proposals provided by the financial institutions is consolidated by the relevant Blending Framework secretariat (DG DEVCO Financial Instruments for DCI and EDF, and DG NEAR Financial Assistance for ENI) in the form of a pipeline for discussion during Technical Assessment Meetings (TAMs), hereby ensuring coordination at an early stage between the EU and IFIs. Besides, the EUDs became more involved in project design since 2014: they take part to identification missions and are in charge of drafting the Technical and Administrative Provisions (TAPs) whereas previously the lead IFI used to be responsible. This automatically leads to stronger cooperation locally between the EUDs and the IFIs.

Sources of information: General-level documentation on blending; Interviews with EU HQ
Quality of evidence: More than satisfactory

Blending, working in combination with the MRI, has shown that it can lead to strengthened donor cooperation during project implementation (I-8.1.3). General-level documentation on blending indicates that blending facilities enhanced coordination, exchange of information and cooperation between European aid actors as well as to a lesser extent and in specific regions, with non-European aid actors. This enhanced coordination mostly concerned the four main European partners (EIB, EBRD, AFD, and KfW) representing the great bulk of operations approved so far. One should keep in mind that the AFD, EIB and EBRD already succeeded in enhancing coordination with the establishment of the Mutual Reliance Initiative (MRI) in 2009 which delegates most tasks of an operation to the lead financier and establishes mutual recognition of procedures. The EU Platform for Blending in External Cooperation (EUBEC) set up on December 2012 also facilitated sharing and exchange of expertise, notably within the technical groups consisting of the Commission, EEAS, FIs and a number of Member States representatives.

Sources of information: General-level documentation on blending; Inventory of interventions; Interviews with EU HQ and IFIs HQ
Quality of evidence: Strong.

The in-depth review of the selection of project shows that donor coordination was often satisfactory during implementation. Coordination between the IFIs and the EUD was reported as being satisfactory in more than half of the cases reviewed (12 out of the 18 cases), and sometimes the projects were also coordinated with other donor interventions in the same sector (I-8.1.3). WASH/IWSP/EG #14 is a 'success case' with the organization of regular programme management meetings to which the various project actors (beneficiary, PMU staff, etc.) and KfW took part. This project also benefited from the close donor coordination observed in the water sector during the past ten years (water sub-Donors Assistance Group in Egypt). TRANS/RoadRehab/MD #29 was well coordinated with other donor interventions in the same area. On the contrary, several projects in Armenia reveal weaknesses in donor cooperation. For instance, the EU and EBRD have not regularly engaged with one another during implementation (TRANS/MetroRehab/AM #9). Signs of competition between IFIs led to problems such as using the grants and loan concessions to gain business volume. Similarly, very little information sharing and coordination occurred for the Port de Pointe Noire Project (TRANS/PAPN/CG #41-42). Besides, while joint monitoring missions to which the Commission shall be invited to participate are generally included in the delegation agreements of blended projects, joint monitoring missions to follow up the progress of the projects were generally not organized (I-8.1.4). Joint missions gathering all involved IFIs and the EU were organized in 5 out of the 18 cases reviewed (projects

TRANS/Corridor/MZ #26, WASH/IWSP/EG #14, ENER/O.SolarPlant/MA #15, TRANS/RoadRehab/MD #29[162], WASH/PNA-ONEP/MA #30).

Sources of information: Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners.

Quality of evidence: More than satisfactory.

JC 8.2 Extent to which blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries

Summary for JC 8.2 Extent to which blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries

- The blending institutional set-up has not led to the benefits expected in terms of reduced transaction costs for beneficiaries
- For the IFIs, there has been a strong feeling that transaction costs were higher with blending than for traditional loan operations, notably at appraisal stage but also in terms of more complex project management

  → JC is not validated

The blending institutional set-up has not led to the benefits expected in terms of reduced transaction costs for beneficiaries. In principle blending is supposed to lead to reduced transaction costs for beneficiaries, which only need to deal with a single lead IFI responsible for monitoring, evaluation and audit according to its own procedures instead of multiple donors and IFIs each using different procedures. The examination of the sample of projects shows that in practice these benefits have often not materialised from the beneficiaries' viewpoint (I-8.2.1 & I-8.2.3). In those cases, the beneficiaries reported lengthy procedures (e.g. slow turnaround on decisions and no-objections from the blending IFIs), and pointed to situations where administrative requirements between IFIs have not been simplified, and overall rather high transaction costs. While one system of monitoring and procurement has often been used, hereby relieving the promoter/beneficiary from reporting separately to different IFIs, beneficiaries still had to maintain close bilateral relationships with each donor during project implementation (e.g. ENER/O.SolarPlant/MA #15). In Egypt, although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems. Two cases (WASH/IWSP/EG #14, WASH/PNA-ONEP/MA #30) show a positive experience for the beneficiary, with a willingness on its side to replicate the same institutional set-up for future projects. It was reported that it was still possible to go further in harmonisation through for instance a single loan agreement.

Sources of information: Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners.

Quality of evidence: More than satisfactory

For the IFIs, there has been a strong feeling that transaction costs were higher with blending than for traditional loan operations, notably at appraisal stage but also in terms of more complex project management (I-8.2.2). Staff from the IFIs in headquarters generally

[162] TRANS/Corridor/MZ #26; WASH/IWSP/EG #14; ENER/O.SolarPlant/MA #15; WASH/PNA-ONEP/MA #30; TRANS/RoadRehab/MD #29

considered that the time required to prepare blended projects was superior to the time spent to prepare traditional loan operations. IFIs have to prepare the application form, present it to their Board, and conduct formal and informal exchanges with the EU which is found unnecessarily bureaucratic and time consuming. On the EUDs side, recent changes on the preparation of NIF projects following the creation of DG NEAR early 2015 have increased transaction costs for the EUDs for the identification phase of the projects: i) the responsibilities for the NIF became relatively dispersed within DG NEAR, hereby complicating the EUD work (e.g. slowness of the HQ response on EUD requests); ii) the lead for the preparation of the projects lies within the contracts and finance section of DG NEAR that tends to be less risk-oriented than the NIF Secretariat previously in charge. Moreover, the management of blending projects during implementation has often demanded a heavy implication from the lead IFI, heavier than for traditional loan operations. This is confirmed by the results of the survey show that joint financing has not to lead a drastic reduction of transaction costs with 65% of EUD respondents considering that joint financing had a null to a moderate degree of influence on transaction costs and with procedures being streamlined for 18% of the respondents. Considering that blending enables to finance complex and large infrastructure project that could not have been financed without a co-financing scheme, these costs were sometimes not necessarily considered as barriers and acceptable to the IFIs. Besides, for the EBRD, the fact that a Project Implementation Unit is usually paid for with the grant represented an important benefit of the grant because it has ensured good contract management and adherence to the Bank procurement rules.

Sources of information: Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners; Survey results

Quality of evidence: More than satisfactory

JC 8.3 Extent to which blended projects have increased visibility of EU development operations vis-à-vis other donor countries and development financial institutions, as well as beneficiary countries

Summary for JC 8.3 Extent to which blended projects have increased visibility of EU development operations vis-à-vis other donor countries and development financial institutions, as well as beneficiary countries

- Until 2014, blended projects often lacked a comprehensive communication and visibility strategy and action plan
- Visibility requirements for blending operations became more demanding and structured with the 2014 blending governance changes
- The visibility of the EU in blended projects generally remained limited

→ JC is not validated

Until 2014, blended projects often lacked a comprehensive communication and visibility strategy and action plan. In the early period, visibility requirements were rather light and agreed upon informally. General visibility rules are stipulated in the regulatory framework of the regional investment facilities; the main principle is that the lead financier ensures EU visibility which is at least equivalent to its own visibility. Contractual arrangements relating to individual projects vary across facilities as far as visibility is concerned (I-8.3.1 & I-8.3.3). The agreements of the ITF projects reviewed generally do not include visibility clauses; the projects did not foresee specific visibility actions or budget at design stage. On the contrary, the agreements of the NIF and LAIF projects reviewed generally include a generic communication and visibility clause, which does not provide detailed guidance on the activities to be conducted. For some projects, proposed actions such as the organization of a launch ceremony, stickers carrying the EU flag, or display of the EU

logo wherever appropriate are included in the agreements. Usually, no specific funds were set aside for communication activities in the financing agreements (contrary to the approach recommended by the 2010 EU Manual on visibility). An exception is project WASH/IWSP/EG #14, which foresees a specific budget for communication and visibility. Moreover, blending operations reviewed generally did not factor into their design specific communication strategies enhancing EU's visibility, while the 2010 EU Manual on visibility suggests the adoption of such visibility plans (I-8.3.2). The two AFD-led projects WASH/PNA-ONEP/MA #30 and MULTI/SustDev/CO #19 include a specific communication/knowledge dissemination component on the activities implemented by the projects – but not specifically on EU visibility.

Sources of information: General-level documents; Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners.

Quality of evidence: Strong.

Visibility requirements for blending operations became more demanding and structured with the 2014 blending governance changes. Recent EU guidance for blending operations has given a more prominent place to visibility and communication issues. In the 2014 Application Form, communication and visibility becomes a specific item of the indicative budget of the project. In addition, the contract of blending operations shall include as an annex a communication and visibility action plan discussed at preparation stage. The 2015 Guidelines on EU blending operations indicate that 'visibility of EU funding must be assured' and refer to the 2010 EU Manual on Visibility for 'guidance on how to standardise and convey the EU's written and visual identity' and stress that 'its requirements also apply to blending'. Three requirements are put forward: all actions funded by the EU should i) incorporate information and communication activities and ii) ensure EU's written and visual identity; and iii) the beneficiaries of EU support shall implement visibility provisions. The 2016 Application Form includes an hyperlink of the 2010 EU Visibility manual for the communication and visibility plan. Some IFIs representatives at headquarters level indicated that precise communication and visibility plans have been recently prepared during the inception stage of projects.

Sources of information: General-level documents; Interviews with EU and IFIs

Quality of evidence: More than satisfactory.

The visibility of the EU in blended projects remained limited (I-8.3.4). Some visibility actions were often implemented: press-releases and other media coverage (e.g. presence at press conferences); opening ceremonies; acknowledgement of the EU support during workshops and in studies; display of EU logos on billboards; etc.). Overall EU visibility was perceived as being mixed or low in 21 projects out of 23 examined (that were approved between 2008 and 2013). National partners and/or end-beneficiaries have often not been well informed that the EU contributed to the financing of the projects. Visibility rather remained in the hands of the lead IFI. This is confirmed by the survey results that show that an important majority of the EUD respondents (71%) consider that blending had a null or a low effect on increasing EU visibility. It also converges with the findings of the NIF mid-term evaluation covering the period 2007-2013 and of the 2014 report of the Court of auditors. It is worth noting that the EBRD -contrary to the other IFIs- made specific efforts to report in detail on the actions realized to provide visibility to the EU.

Sources of information: General-level documents; Project application forms, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners; Survey results

Quality of evidence: More than satisfactory.

Summary of the Data Collection Process for Evaluation Question 8

Judgement criteria information availability (go to indicator level if needed)	
JC 8.1	4
JC 8.2	4
JC 8.3	4
1= low – 5 = high	

Hypotheses to be tested in the field	Evidence
• The preparation of blended projects was often time-consuming but lead to quality projects. Longer preparation time with blending compared to pure loans can therefore be seen as a positive transaction cost.	This is confirmed in half the countries visited. In two countries, no evidence could be collected on this issue, the projects being already mature when proposed to the EUD.
• Management costs for co-financing IFIs were inferior during project implementation compared to pure loans	This is not confirmed. The existence of multiple players increased time and transaction costs, especially of national partners.
• The inclusion of dissemination knowledge components within the projects is a good approach to ensure adequate visibility	This is not confirmed. This was a good approach to sensitize population on the programme and enhance the visibility of the programme, but not necessarily the EU visibility though some events (e.g. the visibility event on the LAIF programme in Cartagena organised in May 2014) gave visibility to the EU.

8.4 Indicator analysis

JC 8.1 Blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs

I-8.1.1 Full use of donors' comparative advantage at sector/country level with blended projects

The design documentation of blended projects usually does not refer the IFIs' specific comparative advantage at sector/country level.

An exception is project **ENER/SEFF/MA-JO #35 (2013-EBRD-Grant):** The project design benefitted from EBRD's extensive experience in SEFF's implementation, and in particular on its experience gained in Turkey. (Source: EBRD, Standard project application form, 2013; Interviews with EBRD in Morocco)

I-8.1.2 Preparation of projects in close coordination between EU actors and IFIs (e.g. sharing of projects' pipeline and feasibility studies between IFIs and EUD) & I-8.1.6 Coordination between EU and bilateral European financial institutions and EIB/EBRD at policy-level, for defining own priority areas of intervention

Overall findings:

Blending decision-making processes required increased consultations over time between the EU (HQ and EUDs) and PFIs at identification and design stage to discuss the pipeline of projects.

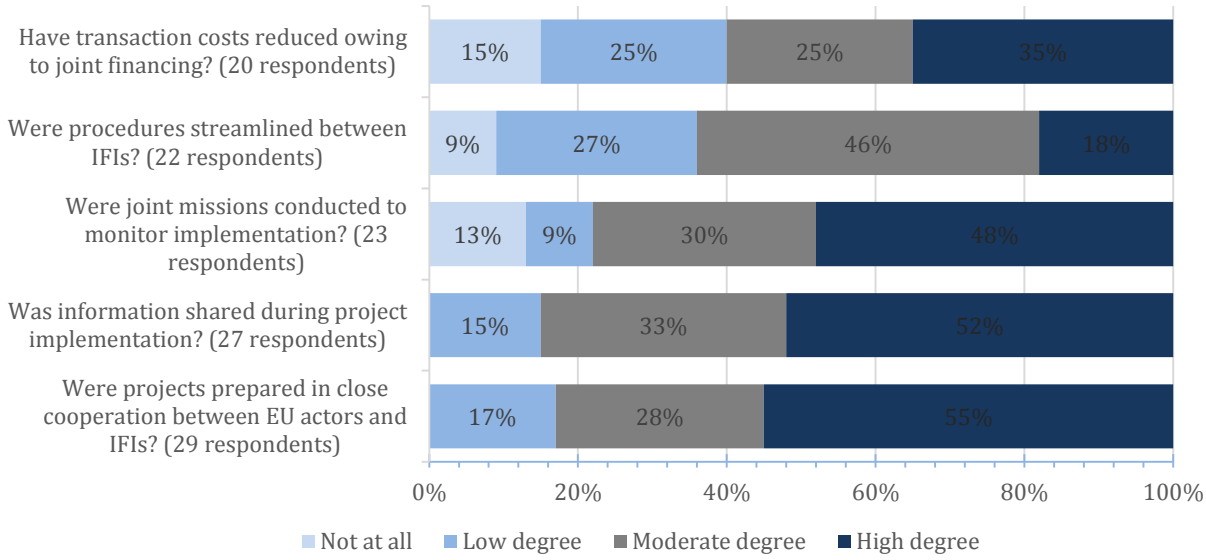
During most of the period, the lead FI was in the driving seat for project design; the EU received info about projects that it had little input into. Decision-making processes have been reviewed in 2014, amongst others to improve early stage coordination, so as to ensure that resources are better focused on identified priorities. (Sources: Discussion paper on the future governance of the EU blending facilities for the EUBEC policy group, June 2014; Report from the Commission on the activities of the EU platform for Blending in external cooperation since its establishment, December 2014).

Currently, 'information on project proposals under development are provided by the financial institutions and consolidated by the relevant Blending Framework secretariat (DG DEVCO Financial Instruments for DCI and EDF, and DG NEAR Financial Assistance for ENI) in the form of a pipeline, for discussion during technical assessment meetings' organised once a year by the Secretariat with the relevant Commission services, the EEAS and financial institutions. 'The pipeline discussion ensures coordination at an early stage, as the project pipeline is regularly reviewed and discussed by the Commission, the EEAS and participating financial institutions — including in relation to geographical balance and agreed EU political objectives'. According to EU HQ representatives, Technical Assessment Meetings and the stronger involvement of the EUDs in the whole process are crucial features to ensure exchange and smooth coordination. (Source: 2015 Guidelines on EU blending operations; AFD and EU HQ comments on Desk Report). Indeed, over time, the EUDs became more involved in project design. Until 2014, project preparation was 100% centralised and the EUDs only gave their opinion on project proposals. Since 2014, the EUDs are heavily involved in project design: they have to take part to identification missions and are in charge of drafting the Technical and Administrative Provisions (TAPs) whereas the lead IFI used to be in charge previously. This automatically leads to stronger cooperation locally between the EUDs and the IFIs. (Source: Interviews held with EUDs in the ten countries visited).

Besides, according to the 2014 Court of Auditors Report, 'the Mutual Reliance Initiative (MRI) established by three European financial institutions further enhanced cooperation and coordination. The MRI is a formal framework set up in 2009 by AFD, EIB and KfW with the purpose of increasing effectiveness in co-financing development projects. Its main features are the delegation of most tasks to the lead financier of an operation and the mutual recognition of procedures.'

The cases examined through documentary review and during the ten field visits evidence close preparatory work between EU actors and IFIs in half of the cases reviewed (9 out of 18). TRANS/RoadRehab/MD #29 evidences close work between three IFIs (WB, the EIB and the EBRD) involved at the appraisal stage of the Moldovan Road Sector Program Support Project. This is confirmed by the results of the survey that show that just above half of the respondents considered there was close cooperation during project preparation and high information sharing during project implementation.

To what degree blending led to improved cooperation and coordination between actors and to lowered aid transaction costs?



A few blended projects (3 out of 18) were designed with a view to complement other EU or EU MS support to the sector (EU's efforts to support the Government of Egypt's reform agenda in energy and water (ENER/PowerTrans/EG #31 and WASH/IWSP/EG #14); or EU MS support (Netherlands and GIZ) to the implementation of the IWRM policy since 2007 (#20). The design of TRANS/Corridor/MZ #26 took account of other programmes financed by the EU, EU MS and other donors so as not to duplicate.

Illustration of detailed facts and findings at project level:

The illustrations provided below generally focus on cases where coordination was reported during project preparation in the documentation and/or during the country visits. For all the other cases reviewed, no evidence of coordination was found in the documentation or collected through the interviews and therefore reference to those projects is not presented in detail.

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The design of the blending operation took account of other ongoing and planned EU interventions in the transport sector. The rehabilitation and development of the Beira corridor was also part of the EC programme for the country, with transport being a focal area. 'The EC foresees to finance partially the rehabilitation and upgrading of the road from Beira to Machipanda (Zimbabwe border) in 2009, which includes the access road to the Beira port which is directly linked with the EIB's proposed project. The EC is currently financing the building of a major bridge over the Zambezi near Caia, which will form part of the Trans-Mozambican Highway. The equivalent rail link is part of the Sena railway line, targeted by the proposed project.' For the port component, the implementing agency (CFM – 'Mozambique Ports and Railways') was receiving technical assistance from ORET (€10m) (Dutch Development Agency; the Netherlands being a Donor to the ITF) and Danida (€10m) for the implementation of the first phase of dredging and the equipment component, respectively. The concessionaire CCFB (Beira Railway Company) shall implement the railway component. This component is to be

financed with a World Bank/IDA loan, CCFB's own funds (from shareholders contributions) and the EIB loan of EUR 42m. (Source: EIB, ITF application supporting document, 2008).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): the project has been designed with a view to complement EU's efforts to support the Government of Egypt's reform agenda (cf. identification of an EU Energy Sector Policy Support Programme at the same time). The project fiche indicates that 'the envisaged financing structure, including the EU, the EIB as one of the main IFIs active in the sector, KfW and AFD - and in parallel the World Bank and Clean Technology Fund - provides a good example of enhanced coordination between international and development finance institutions'. (Source: EU, Financing agreement, 2010, and EIB, Project fiche).

WASH/IWSP/EG #14 (2008-KfW-Grant): The EU supports many initiatives related to water and wastewater sector policy development and strategy reform with a EU Water Sector Reform Programme (WSRP) of €80m. The IWSP blending operation -which involves KfW, AFD, EIB and EC- intends to provide the Government of Egypt with donor's joint support in a harmonized way under the overall umbrella of the EU WSRP 2005-2008. (Source: EU financing agreement, 2008)

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): les fonds de la FIV sont mis en commun avec ceux de la BEI, de l'AFD, de la KfW, de la BAfD, de la BM et d'autres bailleurs (Clean Technology Fund et investisseurs privés). La préparation du projet a impliqué un travail étroit entre les différents acteurs impliqués. (Source: UE, Convention de financement, 2011; Interviews au Maroc).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The project has been designed in close collaboration between the EU IFIs (AFD, EIB, KfW) and the ONEE. (Source: Interviews in Morocco)

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): Three IFIs were involved in the appraisal stage of the Road Sector Program Support Project (RSPSP): the WB, the EIB and the EBRD. No single IFI was prepared to finance the entire project on its own. The transition objectives set for the project have been established jointly by IFIs (Source: Interviews in Moldova). Besides, at the time of approval, the Banks closely worked with the IMF as Moldova had an agreement with the IMF to borrow only on concessional terms. Blending EBRD/EIB financing with USD 16 million of WB IDA funding for the first phase had a grant equivalent element of only 24%, the IMF urged the Banks to continue their search for further grant funding. The EU and the US Millennium Challenge Corporation were successfully mobilized for the second phase of the project. (Source: EBRD, Operation Performance Assessment, 2015). The EU ROM report notes that the blending operation (which focuses on the second phase of the project) 'is aligned with several other donor-contributions to rehabilitate most part of the road connecting Balti, second largest city in the country, to the capital Chisinau.' (Source: EU ROM report, 2013).

WASH/IWRM/CO #20 (2013-AFD-TA): The project design intended to be complementary to the support provided by the Netherlands and GIZ to the implementation of the IWRM policy since 2007 (20M€ over 4 years). Coordination is to be ensured by the Ministry of Environment. (Source: Project Fiche, 2012). The EUD has not been involved in project preparation, project preparation having been coordinated at headquarters level between Paris and Brussels (Source: Interviews in Colombia).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): The complementarity with other facilities approved or in the process of being approved by the EU NIF and other donors and DFIs (AFD,

KfW, ADB) has been considered. It appeared that the SEMED SEFF objectives may to some degree overlap with those of other facilities, but the implementation mechanism to be used is different thus likely to attract different clients. (Source: EBRD, Standard project application form, 2013). The EUD has not been involved in project preparation since it is a financed through a regional facility managed by headquarters (Source: Interviews in Morocco).

ENER/Env.Credit lines/REG #43-44 (2013-AFD-TA): AFD has had several exchanges with KfW and EIB in the preparation of other approved ITF projects for the region and related to the financing of clean energy, namely: a project sponsored by the EIB, which aims at sharing risks with banks through a partial sharing risk guarantee mechanism (PRG); and a project sponsored by KfW, aiming at providing a premium to the 17 existing feed in tariff in order to accelerate the emergence of renewable project. AFD has concluded that these projects where complementary to its environmental credit line. For instance, by providing long term facility AFD is creating a leverage effect on the PRG which doesn't address the need for funding adapted to the long term yield of the RE investments. Furthermore, AFD has welcomed other donors to take the opportunity to finance the portfolio of projects identified so far, as it is larger than the size of the credit line offered to the banks. (Source: AFD, ITF application supporting document – Annex 1, 2013). The EUD has been involved when the project was already mature (Source: Interviews in Kenya).

I-8.1.3 Information sharing between IFIs, beneficiaries and EUD during project implementation

Overall findings:

EU official documents as well as the 2014 European Court of Auditors report recognize that blending facilities enhanced coordination, exchange of information and cooperation between European aid actors as well as to a lesser extent and in specific regions, with non-European aid actors. This has been notably achieved through the participation of the different actors in the formal governance bodies of the EU blending mechanisms as well as through informal coordination at local or Headquarters level. However, this enhanced coordination mostly concerned the four main European partners (EIB, EBRD, AFD, and KfW) representing the great bulk of operations approved so far (93% of the projects of the inventory). (Source: Report from the Commission on the activities of the EU platform for Blending in external cooperation since its establishment, December 2014; European Court of Auditors, The effectiveness of blending regional investment facility grants with financial institutional loans to support EU external policies, 2014; Inventory of interventions)

The EU Platform for Blending in External Cooperation (EUBEC) established on December 2012 to improve the quality and efficiency of EU development and external cooperation blending mechanisms facilitated sharing and exchange of expertise, notably within the Technical Groups (TGs) consisting of the Commission, EEAS, FIs and a number of Member States representatives. EU HQ stress that it has proven to be a useful and inclusive platform to discuss horizontal issues on blending. (Source: Report from the Commission on the activities of the EU platform for Blending in external cooperation since its establishment, December 2014; Interviews with EU HQ)

The documentary review of the sample of projects as well as the field visits show that in more than half of the cases reviewed (12 out of the 18 cases reviewed: ENER/C.Intercon/NA-ZM #1, TRANS/PublicTrans/MD #10, IND/SME Facility/REG #12, WASH/IWSP/EG #14, MULTI/SustDev/CO #19, WASH/IWRM/CO #20, TRANS/Corridor/MZ #26, TRANS/RoadRehab/MD #29, WASH/PNA-ONEP/MA #30, ENER/Wind Farm/EG #32,

ENER/SEFF/MA-JO #35, BANK/EFSE/MC #36), coordination between the IFIs and the EUD was reported as being satisfactory, and sometimes the projects were also coordinated with other donor interventions in the same sector. WASH/IWSP/EG #14 is a 'success case' with the organization of regular programme management meetings to which the various project actors (beneficiary, PMU staff, etc.) and KfW took part. This project also benefited from the close donor coordination observed in the water sector during the past ten years (water sub-Donors Assistance Group in Egypt). TRANS/RoadRehab/MD #29 is reported as being 'exceptionally well-coordinated with other donor interventions in the same area'.

Coordination issues were reported in a few of the visited countries (2 out of 10: Armenia and Congo). TRANS/MetroRehab/AM #9 in Armenia illustrates coordination issues with the EU and EBRD having not regularly engaged with one another during the implementation.

Illustration of detailed facts and findings at project level:

The illustrations provided below generally focus on cases where coordination was reported in the documentation and during the country visits. They also provide strong cases of missed opportunities as reported by the stakeholders met in the ten countries visited. For all the other cases reviewed on the basis of documentary review, no evidence of coordination was found and therefore reference to those projects is not presented in detail.

Cases of good collaboration:

Interviews held in **Colombia** show that blending projects enabled the EU and the AFD to start cooperating in Colombia. Before the launch of the two blending operations in 2013, the EUD and the AFD did not have contacts. This is key in the Colombian context where donor coordination is not well-advanced or structured into sector working groups etc. The design and implementation of the two blended operations marked the beginning of a working relationship between the EU and the AFD in the country. At the time of the mission (Feb. 2016), the EU and the AFD were preparing the third blending operation to be implemented in Colombia, with an increased engagement of the EU Delegation.

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): Coordination between the financing partners was reported to be generally satisfactory but there are issues related to transaction costs (see JC8.2). (Source: Interviews in Namibia).

TRANS/Corridor/MZ #26 (2008-EIB-IRS): Coordination between the financing partners was reported to be generally satisfactory but there are issues related to transaction costs (see JC8.2). (Source: Interviews in Namibia).

WASH/IWSP/EG #14 (2008-KfW-Grant): Quarterly progress reports indicate that throughout the period 2010-2014 bi-weekly programme management meetings to which project actors (beneficiary, PMU staff etc) and KfW take part occurred. The projects funded by other DPs (including GIZ, AFD, EU, Italy) were mapped in the quarterly progress report covering the period December 2011-February 2012. This report also indicates that efforts not to duplicate with the WB programme (Water Policy and Regulatory Reform) are made and that 'Lot B is activily coordinating activities with the JICA project team (JICA project is 'Improvement of Management Capacity of Operation and Maintenance for Water Supply Facilities in Nile Delta Area'). (Source: KfW Quarterly progress reports from 2010 to 2014). The mid-term review does not include any information on effective cooperation or coordination between EU actors during project implementation. (Source: BCT Technology enterprises, Mid-term review report, 2014). The FA

also stresses that cooperation between donors has been close in recent years through the Donors Assistance Group (DAG) via the water sub-DAC in Egypt. (Source: EU financing agreement, 2008). As of 2012, donors and the government worked on a Joint Integrated Sector Approach (JISA) based on the National Water Resources Plan in order to better coordinate the efforts from various donors, particularly in irrigation. The European Union and Egypt signed a Memorandum of Understanding for the Joint Integrated Sector Approach (JISA) in 2015. This marks EU's full support to the donor coordination and investment harmonization efforts in the water sector led by the Ministry of Water Resources and Irrigation. (Source: EU press release, 'EU funded Support to National Water Resources Plan Kicks off', 2015).

WASH/IWSP/EG #14 (2008-KfW-Grant) & ENER/Wind Farm/EG #32 (2008-KfW-Grant): KfW interviewees noted that blending has contributed to cooperation and harmony between IFIs at the project level and also at the overall level through the platforms such as EUBEC.

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The blending operation is implemented under the Road Sector Program Support Project (RSPSP) 2010-2013, financed by the World Bank, EBRD, EIB and the EC. The 2013 EU ROM report notes that 'the operation is exceptionally well coordinated with other donor interventions in the same area'. (Source: EU Monitoring report, 2013).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The project involved the EBRD, the EIB and the EU. The 2015 EBRD OPA report indicates that 'cooperation between the co-financiers was good', without giving additional details.

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): This joint EIB-AFD-KfW-EU project fostered coordination between four donors. It enabled three IFIs who used to provide parallel financing to the sector to work together. Besides, there is good cooperation with the TA of the BTC that finances TA for sanitation in 11 other cities covered by the Moroccan PNA. The TA for general management financed by blending helped the BTC TA (Source: interviews with AFD HQ/Morocco and ONEE in Morocco). De plus, le financement des assistances techniques à la maîtrise d'oeuvre et à la communication du programme est mutualisé avec la CTB (Source : AFD Aide-mémoire 2014).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): according to the 2013 Progress report, the EIB, the EBRD and KfW have been coordinating on a regular basis, regarding both projects preparation and implementation, by sharing information on respective pipeline and portfolio (Source: 2013 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2014). The 2014 report also mentions extensive consultations and coordination among EIB, the EBRD and KfW (Source: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): The MorSEFF has a common Steering Committee led by the EU DG Near with participation of all DFIs and selected DGs to review progress of the Facility. In favouring a joint operation between three DFIs (AfD, EBRD, KfW), blending avoided a potential competition between them on the same market with a similar product. (Source: Interviews with EBRD in Morocco and London). Similarly, in Jordan, the IFIs have confirmed the need to coordinate the operations of the different credit lines available to Jordan. For this purpose, EBRD and AFD, in association with EIB and KfW, held discussions on the detail of the potential specific sector targeting to avoid overlapping and instead to maximise synergies between these credit lines (Source: EBRD, Standard project application form, 2013).

BANK/EFSE/MC #36 (2009-KfW-RC): the EFSE semi-annual meeting occurs twice a year in Brussels between the EU, the lead IFI, and its implementing partner to review the strategy, figures, results, etc. The IFIs mentioned the difficulty to conciliate the expectations of public donors like the EU (focusing on the creation of a social impact) and of private investors interested in the return of the fund. For KfW, EFSE represents a tool to implement its policy towards MSMEs but the size of the potential partner financial institutions is sometimes too small for the IFI to work directly with them. (Source: Interviews in Moldova).

Cases of missed opportunities:

Interviews held in **Armenia** show that the EUD has attempted to initiate donor cooperation but that this has reportedly not yet resulted in concrete improvements. Different IFIs in the waste sector have not been able to coordinate and bring one voice. For Project #9 (TRANS/MetroRehab/AM #9) (2010-EBRD-Grant): the EU and EBRD have not regularly engaged with one another during implementation. There were issues around the frequency at which projects had to be audited, the sharing of project progress and financial reports; and the role of EUD in non-objections. (Source: EU ROM 2013). Moreover, there have been signs of competition between IFIs. Whilst this can be healthy there is also evidence that it has led to problems such as using the grants and loan concessions to gain business volume – although this is more a problem of earlier periods of blending in Armenia. There are also instances of projects providing grants that over subsidise such as in the field of energy efficiency investments where projects that fail to keep the same level of commercialization of the investments will create market distortion. (Source: interviews with EUD and national partners in Armenia).

Interviews held in **Congo** show that very little information sharing and coordination occurred for the Port de Pointe Noire Project which is now closed (TRANS/PAPN/CG #41-42). It was for instance mentioned that the only correspondence received about the project is the one related to the pollution problem encountered in 2012. The EUD has not been involved in discussion with the lead IFI regarding the project (no written records of such involvement). Coordination between donors in the country positively evolved over time. (Source: interviews with IFI and EUD in Congo).

I-8.1.4 Conduct of joint missions and use of joint monitoring systems to monitor the implementation of blended projects

Overall findings:

The lead IFI is in charge of monitoring the implementation of blended projects. Reporting has been made according to the reporting system and templates of the lead IFI.

The delegation agreements of blended projects usually include a clause on monitoring and evaluation, which stipulates that the Commission shall be invited to participate to all monitoring missions organized by the lead IFI.

Generally, joint monitoring missions to follow up the progress of the projects were not organized. Only 5 out of the 18 cases reviewed (#26, WASH/IWSP/EG #14, ENER/O.SolarPlant/MA #15, WASH/PNA-ONEP/MA #30, TRANS/RoadRehab/MD #29) evidence that joint missions gathering all involved IFIs and the EU to monitor the implementation of the project were organized.

Illustration of detailed facts and findings at project level:

Illustrations are provided for the projects for which joint monitoring missions were organised.

TRANS/Corridor/MZ #26 (2008-EIB-IRS): For the railway component (co-financed by the EIB and the WB), when the Government terminated the Concession, the EIB and the WB undertook a joint monitoring mission in June 2012 to assess the likelihood of an amicable solution between the parties (which never materialized) and to assess potential opportunities to disburse the remainder of their loan. The works have then been undertaken by CFM. (Source: EIB Project Progress Report, 2014)

WASH/IWSP/EG #14 (2008-KfW-Grant): A joint monitoring mission, led by KfW on behalf of European Development Partners (AFD, EU, EIB, KfW), took place in May 2012. It presents a review of progress of programme implementation. The aide-mémoire does not provide information re-coordination between EU actors. (Source: Joint Monitoring Mission, Aide-mémoire, 2012).

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): Joint missions have been regularly organised with all donors involved to supervise the project. (Source: Interviews in Morocco).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The EU agreement foresees a clause for monitoring and evaluation. Daily implementation follow-up was delegated to the Lead FI, the EBRD. 'The Commission shall be invited to participate to all monitoring missions organized by the EBRD'. In addition, the possibility of having external monitoring based on the ROM is foreseen; 'these missions should as much as possible be synchronized with those of the EBRD'. In practice, EBRD produced two very brief progress reports (2012 and 2013) that include a link to the annual operational and financial monitoring report realized by the contracting authority (the State Road Administration (SRA) within the Ministry of Transport and Road Industry) and realized a detailed assessment in 2015 (Performance Assessment Report). Two external EU ROM mission have been carried out (in 2011 and 2013); there is no evidence that these were coordinated with EBRD ones. The World Bank led joint missions twice a year, including staff from EBRD, EIB, MCC and EC, within which policy dialogue with the Government on the transport sector took place. (Source: interviews with IFIs, EUD in Moldova; EBRD, Operation Performance Assessment, 2015)

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Le contrat inclut une clause pour le suivi et l'évaluation qui indique que 'l'AFD effectuera des missions de supervision au moins une fois par an auxquelles elle invitera la Commission européenne, la BEI et la KfW. Les aides-mémoires de ces missions serviront de rapport annuel que l'AFD diffusera aux cofinanciers'; et que la Commission européenne peut par ailleurs organiser un ROM par des consultants indépendants. (Source: DTA du contrat, 2010). Joint missions (4 donors + Belgium) were organized to supervise the project in 2012, 2013 and 2014 (Source: AFD HQ Interviews and AFD, Aides-mémoires de mission, interviews in Morocco).

I-8.1.5 Association of IFIs to EU policy dialogue (where deemed relevant)

Out of the sample of projects selected for in-depth study, operations supporting the water (#14) and energy (ENER/PowerTrans/EG #31, ENER/Wind Farm/EG #32) sectors in Egypt and the water and sanitation sector (WASH/PNA-ONEP/MA #30) in Morocco are relevant for this indicator. In Egypt, the EU has been active through both budget support programmes and blending operations in the water and sanitation, and energy sectors. In Morocco, the EU has been

active through both budget support programmes and blended projects in the water and sanitation sector. Blending has rather been used to support other EU policy-related work in enabling the materialization of large-scale infrastructure projects than to initiate a policy dialogue (see EQ5).

JC 8.2 Blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries

I-8.2.1 Reduction of administrative steps for beneficiary countries and (degree of) streamlining of procedures between IFIs

Overall findings:

The regulatory framework of the regional investment facilities lays down the terms and conditions for the contractual framework, pulling of funds and supervision of common project account funds. (Source: NIF Framework agreement, 2009.)

At project level, the lead finance institution and the co-financing institutions sign with the Commission an implementation agreement that lays down the terms and conditions of the co-financing. The Commission, the Lead finance institution and each co-financing institution conclude a separate financing agreement with the beneficiary. The Lead financing institution is entitled to follow its own internal policies and procedures in the execution of the tasks that have been delegated to it by the Commission or the co-financing institutions. Project funds shall be pooled in a common project account unless it has been decided to earmark part of the funds to a specific project component. The lead FI shall supervise the disbursements of the funds to contracting partners implementing the project according to its own procedures. All contracts are subject to a monitoring and control by the Lead FI in accordance with its own procedures. The Lead FI is responsible for following-up the project implementation on a regular basis in close contact with the beneficiary. The evaluation and audit shall be carried out by the LFI. This streamlining of reporting system and procedures shall in principle lead to a reduction of administrative steps for beneficiary countries.

EIB staff interviewed in HQ judged that the beneficiary had lower aid transaction costs (not measured) because they dealt with one lead institution representing a consortium. This enabled more efficient data disclosure, dialogue, document development and more. In particular, the delegation of responsibility to the lead IFI allows one system of monitoring and procurement to be used, which relieves the promoter/beneficiary from reporting separately to different IFIs. (Source: EIB HQ interviews).

While in principle blending is supposed to lead to reduced transaction costs for beneficiaries, which only need to deal with a single (larger) counterpart and common procedures instead of multiple donors with different procedures, the examination of the sample of projects shows that in practice these benefits have generally not materialised from the beneficiaries' viewpoint.

In 8 out of the 16 cases reviewed, the beneficiaries reported lengthy procedures (e.g. slow turnaround on decisions and no-objections from the blending IFIs), cases where administrative requirements between IFIs have not been simplified, and overall rather high transaction costs. In Egypt, although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems (Source: Interviews in Egypt). Two cases (WASH/IWSP/EG #14, WASH/PNA-ONEP/MA #30) show

a positive experience, with a willingness on the beneficiary side to replicate the same institutional set-up for the next projects.

The results of the survey show that joint financing has not to lead a drastic reduction of transaction costs with 65% of the respondents considering that joint financing had a null to a moderate degree of influence on transaction costs and with procedures being streamlined for 18% of the respondents.

To what degree blending led to improved cooperation and coordination between actors and to lowered aid transaction costs?

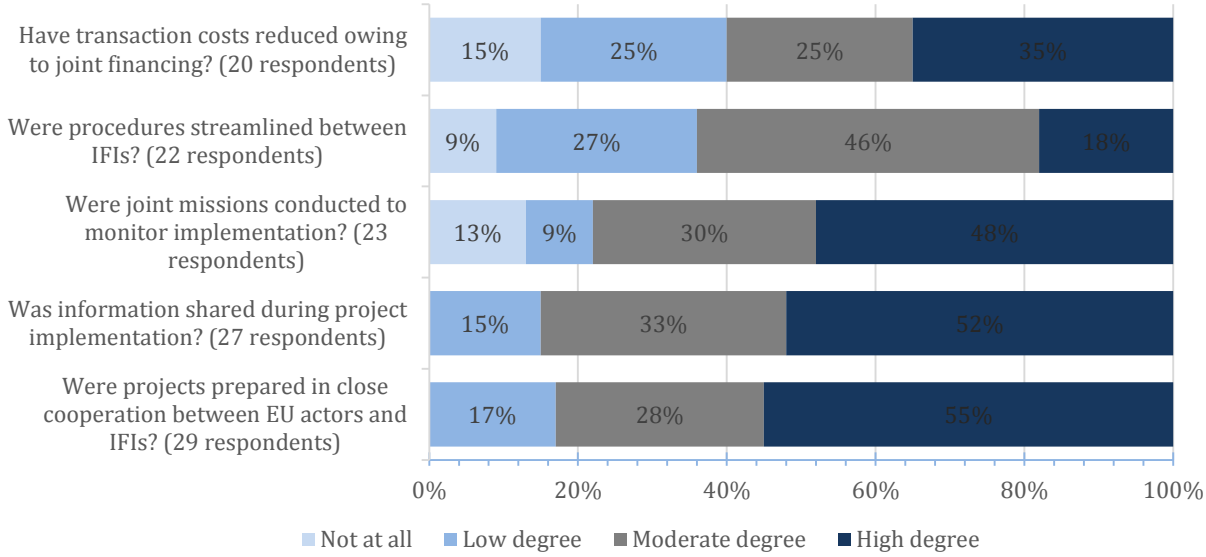


Illustration of detailed facts and findings at project level:

Positive effects of blending on transaction costs for beneficiaries:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The loan agreements with NamPower were signed without major delay: it took three months; in case of financing with only one financier, it would have taken the same time. The three financiers maintained individual loan agreements and criteria. (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015). Overall, coordination of loan agreements among the co-financiers was complex but altogether accomplished without any major impediments or additional transaction costs. The three financiers (EIB, AFD, KfW) had non-uniform regulations and varying expectations, which did not facilitate cooperation. 'The contribution of the CLI project to the dialogue between the involved parties was high. Minor difficulties were encountered due to the lack of harmonized procedures and contractual conditions, and a competition over interest rates among the co-financiers. NamPower judged the cooperation with the banks as efficient and helpful.' (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015). The nomination of the lead donor reduced the requirement for multiple reports (Source: Interviews in Namibia).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The promoter (ONEP) had to discuss with each partner before the signature of the agreement and was not convinced by the project set-

up initially. It then noticed that the set-up facilitated implementation, (due to the common account, the single procedures manual, joint identification and supervision missions, and common reporting), and now requests the same set-up for the next programme under discussion. It is still possible to go further in harmonisation through for instance a single loan agreement. Overall transaction costs have been significantly reduced for the ONEE compared to the past when each donor had its own programme. The AFD, as lead IFI, is the only interlocutor of the ONEE and all IFIs play along with the rules. (Source: AFD HQ interviews, Interviews in Morocco). (Source: AFD HQ interviews, Interviews in Morocco).

Negative effects of blending on transaction costs for beneficiaries:

WASH/IWSP/EG #14 (2008-KfW-Grant): The implementation agreement envisaged that the disbursements to the project account shall be made in accordance with the procedures established by each financial institution in their respective financing agreements. (Source: EU implementation agreement, 2011). In total, 10 different agreements have been signed, with a different expiry date for each donor, hence it is not possible to determine a project end date and plan accordingly. This has caused a lot of frustration among the national implementing agencies. (Source: Interviews in Egypt). Besides, KfW interviews revealed that the institutional arrangements used by the blending project were replicated, i.e. used by the WB funded (0.5mUSD) loan for a PforR program.

ENER/PowerTrans/EG #31: Similarly to the above project, the various agreements signed with different expiry dates caused problems; but the agreements have now been extended so they all have the same expiry date. The use of IFI procurement procedures has not caused specific problems because International Competitive Bidding is the norm for the sector and thus the IFI procedures are close to normal practice. However, the audit requirements have led to a two year delay in disbursement during which time the EETC has funded the project from its own sources in order to avoid delays in issuing contracts. (Source: interviews with national partner in Egypt)

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The 2013 EU ROM report shows that the delegation of responsibility to the Lead IFI allows one system of monitoring and procurement to be used, and relieves the client i.e. the Yerevan Metro Company from reporting separately to three different donors.' (Source: EU ROM 2013). But the country visit evidenced that internal IFI and the NIF approval procedures have not been well coordinated. In one case commitment fees are outstanding for a loan that is not yet operational (e.g. Metro). Besides, more generally, borrowers and government counterparts commented on the slow turnaround on decisions and no-objections from the blending IFIs, which made other (non-blending) IFIs preferable given similar lending terms. (Source: Interviews in Armenia).

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): La contribution FIV a été transférée à partir du "Compte FIV-Centrale solaire de Ouarzazate" avec l'accord préalable du Chef de Délégation en des préfinancements successifs sur un compte séparé ouvert par MASEN (Compte projet) auprès d'une banque commerciale marocaine. (Source: UE, Convention de financement, 2011). Transaction costs remained high for Masen: 'each IFI agreed to its own terms and conditions for the loan with MASEN and, more importantly, will sign a "no-objection" letter to approve all major decisions in the project. Further improvements are needed to streamline financing arrangements, avoid lengthy procedures, and unbearable compliance requirements.' (Source: Climate Policy Initiative, San Giorgio Group Case Study: Ouarzazate I Morocco, 2012). MASEN has had to maintain bilateral relations with every donor throughout project implementation. Payment due dates of the NIF grant have not been well respected (with an 8-months delay on Noor I); this forces MASEN to refinance itself on the financial market (Source: Interviews in Morocco).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the interviews held by the evaluation team in EBRD headquarters stress that some efforts have been done to get an harmonious approach between the different IFIs. The Facility is structured as parallel co-financing with a CTA, with individual Financing Agreements (FAs) that each participating DFI signed in parallel with the PFIs. (Sources: EBRD, Standard project application form, 2013; EU, Contribution agreement – Annex 1, 2013; EBRD HQ interviews, July 2015). Transaction costs remained high for PFIs: bilateral negotiations with each IFI on the loan agreements; each IFI has had its own requirements with specific contractual clauses. (Source: Interviews in Morocco).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the Contribution agreement specifies that co-financing of loans is mentioned as to be preferred where possible, practical, and in the interest of the PFIs, in order to increase the potential scale and impact of the programme. (Source: EU, Contribution agreement, 2010). For the PFIs, this blending project appeared to be more time consuming to process because more complex, especially regarding the guarantee cushion from the SMEFF. (Source: Interviews in Georgia).

MULTI/SustDev/CO #19 (2013-AFD-TA) and WASH/IWRM/CO #20 (2013-AFD-TA): Procedures/administrative requirements between IFIs have not been simplified (Sources: Interviews in Colombia)

Neutral effects of blending on transaction costs for beneficiaries:

ENER/Wind Farm/EG #32 (2008-KfW-Grant): Respective financing agreements have been signed. NIF funds are to be disbursed in four tranches. (Source: EU Financing agreement, 2008.) The lots financed by European DPs were tendered in accordance with KfW procurement guidelines. (Source: KfW HQ interviews)

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The EBRD OPA report shows that procedures have been streamlined. 'At the client's specific request in order to simplify to project implementation phase, it was agreed that all procurement activities under the project was subject to WB procurement rules, adjusted where necessary to achieve consistency with the EBRD's procurement rules'. (Source: EBRD, Operation Performance Assessment, 2015). However, parallel financing occurred between the EU and the IFIs because their payment procedures were not harmonized. This required more efforts from the Road Rehabilitation project implementing partners. (Source: Interviews in Moldova).

I-8.2.2 Reduction of management and implementation costs owing to joint financing

Overall

There is a strong feeling that transaction costs for the IFIs are higher with blending. Representatives of the IFIs met in headquarters were of the opinion that blending has high transaction costs. The findings collected through interviews in the ten visited countries also converge. Some of the IFIs HQ stressed that these costs were considered as acceptable since transaction costs are usually high for co-financed projects and that blending enables to finance complex and large infrastructure project that could not be financed without a co-financing scheme.

The visit in Morocco showed that recent changes on the preparation of NIF projects following the creation of DG NEAR early 2015 have increased transaction costs for the EU Delegation. Following the creation of DG NEAR, the responsibilities for the NIF became relatively dispersed within this DG and the division of labour between the EUD and the headquarters related to the

preparation of NIF projects became less clear. This has complicated the EUD work for the identification phase of the projects (e.g. slowness of the HQ response on EUD requests). Besides, the lead for the preparation of the projects lies within the contracts and finance section of DG NEAR that tends to be less risk-oriented than the NIF Secretariat previously in charge.
EBRD staff interviewed in HQ noted that one of the main benefits of grants for EBRD projects is that the PIU is paid for. This ensures good contract management (lower costs and better supervision) and it also ensures (and is necessary for) adherence to EBRD procurement rules. The client can rarely carry out EBRD procurement, where there are no external grants internal technical cooperation funds are used to pay for PIU type function at least for procurement. (Source: EBRD HQ interviews, July 2015)

Illustration of detailed facts and findings at country/project level:

There is a strong feeling that transaction costs for the IFIs are higher with blending.

- The point was made – this applies only to EIB – that before the Facilities came along EIB was the sole institution able to use EU grant funds in development project finance – and a simple 2 page letter secured the approval. Now it has to compete for funds which adds to its transaction costs. (Source: EIB HQ interviews, July 2015).
- In all the countries visited, the transaction costs associated to blending have been perceived as being high for the IFIs. In Colombia, the transaction costs of the LAIF are viewed as high by the EUD and the AFD: LAIF procedures are lengthy; project management is time consuming. In Moldova, it was felt that here are additional transaction costs for IFIs, related to preparation of the documents for EU, including approval of the EU NIF grant, drafting and negotiation of the legal agreements and then further monitoring and implementation. These costs were not perceived by the IFIs as essential barrier to the implementation of the project, recognizing that parallel financing usually requires more efforts/transaction costs from the IFIs. In both Mozambique and Namibia, transaction costs are reported by financing partners to be higher for blending projects than for purely grant-funded projects. Critical reference has been made to the long time required for EU decision-making and approval processes.
- Project level illustrations:

ENER/ERERA/REG #3 (2008-AFD-TA): AFD HQ interviewees (July 2015) noted that the ITF had transaction costs (e.g. procurement of the owner to be followed) but with experience AFD now knows how this works.

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): EIB staff interviewed stated that transaction costs for the IFIs are higher with blending: in the case of this project, this additional cost was 'built into the Bank's appraisal costs' and not measured or accounted separately. The key elements of these costs are a) producing the application form b) presenting this to the Technical Group and the Strategic Body in formal presentations and informal Q&A dialogue and c) answering an increasing number of questions. No figure of person-months could be estimated. (Source: EIB HQ interviews, July 2015; and Interviews in Morocco).

WASH/IWSP/EG #14 (2008-KfW-Grant) & ENER/Wind Farm/EG #32 (2008-KfW-Grant):

- The cooperation and harmony between IFIs at the project level reduced transactions costs for all. However MRI was already there so not all the benefits are blending related. (Source: HQ interviews with KfW).
- TA for Project Management Units (PMU) have built capacity to undertake IFI specific procurement which has helped the partners to navigate the IFI procurement and other procedures. But as well as consuming TA there are cases, for example in the IWSP project, where weak national partners at governorate level have been confused by the number of different procedures followed

by the different PMUs established by different donor programmes. As well as drawing on scarce national resources the different procedures have led to long delays, required re-tendering and exposed the national partners to risks of contravening national procedures. Although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems. It can be noted that in the case of IWSP, the project was advancing a decentralised approach which involved the water companies getting involved in major procurement for the first time. For the energy sector where International Competitive Bidding (ICB) is the norm the same problem has not occurred.

I-8.2.3 Transmission of the benefits received by IFIs (in terms of risk sharing and lower transaction costs) to beneficiaries as reduced risk premium or credit spread

Illustration of detailed facts and findings at project level:

The project documentation of the 21 cases reviewed and the interviews conducted in the field usually do not provide information on this issue.

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): the interest rate of the credit line is at or below Euribor (fixed/floating) long-term equivalent rate, according to project type and financial advantage requirement. The resulting financial advantage is to be split between the participating banks and the end borrowers, with the purpose to offset the operational cost incurred by the banks as they enter a new market segment, to hedge part of the credit risk borne by the banks on a new category of customers, and to provide a financial incentive to invest in EE/RE projects. (Source: AFD, ITF application supporting document, 2010)

JC 8.3 Blended projects have increased visibility of EU development operations vis-à-vis other donor countries and development financial institutions, as well as beneficiary countries

I-8.3.1 & I-8.3.3 Inclusion of visibility clauses in the contracts of blended projects & Type of actions and magnitude of resources envisaged to ensure visibility

Overall

The NIF framework agreement includes a general clause on visibility and communication. The lead FI shall coordinate and supervise on behalf of the other parties the activities related to communication and visibility, which shall highlight the European character of the project. It shall ensure that adequate visibility of the other parties is at least equivalent to its own visibility given through the media. (Source: NIF Framework agreement, 2009.)

The 2015 Guidelines on EU blending operations indicates that 'at the project level, specific visibility provisions are included in the contract signed with the lead financial institution'. Out of the sample selected for in-depth review, the team checked whether specific visibility requirements existed for 23 projects approved between 2008 and 2013. The desk review of these 23 projects shows that:

- The agreements of ITF projects generally do not include visibility clauses. There were no specific visibility actions or budget envisaged to finance visibility actions at design stage.
- The agreements of NIF/LAIF projects generally include a generic communication and visibility clause. This clause usually specifies, for NIF agreements, that the visibility of the NIF contribution should be equivalent to that given through media to other donors supporting the

implementation of the project. Proposed actions such as the organization of a launch ceremony, stickers carrying the EU flag, or display of the EU logo wherever appropriate are sometimes included in the agreements. Usually, no specific funds were set aside for communication activities in the financing agreements (contrary to the approach recommended by the 2010 EU Manual on visibility –see below-). An exception is project #14 which foresees a specific budget for communication and visibility.

The EU Court of Auditors report indicates: 'The regulatory framework of the regional investment facilities stipulates general visibility rules. The main principle is that the lead financier ensures EU visibility which is at least equivalent to its own visibility. Contractual arrangements relating to individual projects generally also stipulate the need for adequate visibility although they fail to provide concrete rules or instructions.' (…) 'In the latest version of the grant application form, the planned communication and visibility activities need to be described.' (Source: European Court of Auditors, The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, 2014).

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS); ENER/WAPP/REG #2 (2009-EIB-TA); **ENER/ERERA/REG #3 (2008-AFD-TA); TRANS/PortWalvis/NA #4 – (2009-KfW-TA); TRANS/Corridor/MZ #26 (2008-EIB-IRS); TRANS/PAPN/CG #41-42 (2009-AFD-TA&IRS):** for these six ITF projects, there is no specific visibility clause included in the EU agreement/application form. There were no specific visibility actions or budget envisaged to finance visibility actions at design stage.

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): The Cooperation agreement includes visibility requirements: publicize work undertaken and highlight EU participation in the programme; follow the EU 'Visual Identity Guidelines'; include logos of the EU AITF on the cover page of the reports produced under the TA contract and a specific text in the report ('The TA is financed under the EU AITF'). There were no specific visibility actions or budget envisaged to finance visibility actions at design stage. Source: EIB, Terms of reference for Integrated Transport Master Plan for Namibia, 2011.

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant). The agreement includes a communication and visibility clause specifying that the visibility of the NIF contribution should be equivalent to that given through media to other donors supporting the implementation of the Egyptian Power Transmission Project. It also specifies that a launching ceremony is to be organized. There is no specific budget envisaged to finance visibility actions at design stage. (Source: EU financing agreement, 2010).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): the agreement includes a communication and visibility clause specifying that the lead FI shall coordinate the activities related to communication and visibility.

WASH/IWSS/MD #11 (2009-EBRD-TA): there is no specific visibility clause included in the EU agreement.

WASH/IWSP/EG #14 (2008-KfW-Grant): The financing agreement includes a communication and visibility clause which requires the beneficiary 'to issue at least one annual event, one press release, and use the appropriate stationery and report presentation format' and that 'the visibility of the EC contribution is at least equivalent to that given through media to other donors supporting

the project'. The indicative budget of the project foresees resources to ensure visibility out of the EC contribution (34m€ in total, including 5m€ from the NIF). 100,000 euros are planned for communication and visibility. (Source: EU financing agreement, 2008).

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): La convention de financement inclut une clause spécifique sur la communication et la visibilité spécifiant que le gouvernement marocain et/ou MASEN (Moroccan agency for solar energy) (maître d'oeuvre) assure(nt) la visibilité médiatique de la contribution de l'UE, et demandant qu'une cérémonie officielle de la signature de la convention soit organisée par le gouvernement marocain; le financement de la centrale soit visiblement mentionné à l'entrée de la centrale ainsi que sur les panneaux de chantiers. Le budget prévisionnel du projet ne prévoit pas d'actions ni de poste spécifiques pour les dépenses liées à la visibilité. (Source: UE, Convention de financement, 2011)

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The EU agreement contains a visibility clause requiring that the Ministry of Construction and Territorial Development ensures that the visibility of the NIF contribution is at least equivalent to that given through media to other donors supporting the project; and that donors shall be invited to any visibility event (such as inauguration of rehabilitated roads or roads sections). No specific action or budget are envisaged. (Source: EU agreement, 2008).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The EU agreement contains a visibility clause requiring that the beneficiaries ensure that the visibility of the NIF contribution is at least equivalent to that given through media to other donors supporting the project. It further specifies that the beneficiary shall ensure that stickers carrying the EU flag and the sentence 'provided with the support of the EU' in English and in the official language shall be displayed on each new trolleybus purchased under the project. Besides, donors shall be invited to any visibility event, such as a launching ceremony. No specific budget is envisaged (Source: EU agreement, 2010).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The EU agreement contains a visibility clause requiring that the visibility of the NIF contribution is at least equivalent to that given through media to other donors supporting the project; the organization of a launching ceremony; and that donors shall be invited to any visibility event related to the project. No specific budget is envisaged. (Source: EU agreement, 2010).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Le contrat inclut une clause 'communication et visibilité' qui demande: à l'ONEP d'assurer que la visibilité de la contribution de l'Union européenne au travers de la FIV via les media, soit au moins équivalente à celle des autres contributeurs au programme, propose l'organisation d'une cérémonie de lancement du programme pour laquelle le gouvernement marocain assurera la couverture médiatique; la mention du financement des travaux par l'Union européenne, l'AFD, la KfW et la BEI sur toutes les stations de traitement ou de pompage ainsi que sur les panneaux de chantiers ou rapports d'études financés dans le cadre de ce programme. Il n'y a pas de budget spécifique envisagé pour le financement des activités de visibilité, mais une composante 'communication' accompagne directement le programme. Cette assistance technique est financée par la CTB et l'ONEE. Elle prévoit une AT internationale en appui à la stratégie de communication; 3 assistants techniques nationaux pour appuyer la mise en oeuvre de plans d'action régionaux; et 3 équipes de 3 animateurs chargées de la gestion de la communication au niveau local (Source : DTA du contrat, 2010 ; et AFD, Aide-mémoire 2012).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the contribution agreement and submission form include information on donor visibility. They mention that the EBRD will ensure that "the EU's contribution to the project will be acknowledged publicly whenever appropriate and is at least

equivalent to that given through media to other donors supporting the implementation of the SEMED SEFF". Possible products to deliver in this regard include: press releases, case studies to be published on EBRD website, videos to explain results of SEFFs and acknowledge NIF funding, and local press visits to see the results of SEFF projects and ensure that the local media is made aware of EU NIF funding for the project. No specific budget is envisaged. (Sources: EBRD, Standard project application form, 2013; EU, Contribution agreement – Annex 1, 2013).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the contribution agreement contains a visibility clause requiring that EBRD and KfW ensure the EU/NIF Contribution is acknowledged publicly whenever appropriate, including in official publications. Necessary actions should also be taken to ensure that SMEs benefiting from the loans are aware of the EU's support. The clause also requires that consultants and firms contracted with the EU/NIF Contribution should collect evidence of the visibility (such as media coverage, official notices and press releases, reports and publications which shall display in an appropriate way the European logo). No specific budget is envisaged. (Source: EU, Contribution agreement, 2010)

BANK/EFSE/MC #36 (2009-KfW-RC): design documents (funding proposal and project fiche) refer to visibility. The Commission requested that an appropriate separated visibility of the neighbourhood window of the EFSE is assured. The document also mentions that visibility should be compliant with relevant rules of visibility of the external actions published by the Commission in its annual reports. The EU logo should also be displayed wherever appropriate. No specific budget is envisaged. (Sources: KfW, Contribution request nr. E1, 2009; KfW, ENBF funding proposal to the EU, no date)

MULTI/SustDev/CO #19 (2013-AFD-TA): The contract includes a visibility clause 'the Delegatee body will ensure that the EU/LAIF Contribution will be acknowledged publicly whenever appropriate, including in official publications, and will require consultants and firms contracted with the EU/LAIF contribution to collect evidence of this visibility, such as media coverage, official notices and press releases, reports and publications referring to the Action, which shall display in an appropriate way the European Commission logo.' (Source: AFD, Annex 1 to the Contract, 2013).

WASH/IWRM/CO #20 (2013-AFD-TA): The contract includes a visibility clause 'the Delegatee body will ensure that the EU/LAIF Contribution will be acknowledged publicly whenever appropriate, including in official publications, and will require consultants and firms contracted with the EU/LAIF contribution to collect evidence of this visibility, such as media coverage, official notices and press releases, reports and publications referring to the Action, which shall display in an appropriate way the European Commission logo.' (Source: AFD, Annex 1 to the Contract, 2013).

I-8.3.2 Design and set-up of clear and effective communication strategies

Overall

The EU issued a 'EU Visibility Guidelines for External Actions' (September 2005) and a 'Communication and visibility manual for EU external actions' in 2010. The 2010 manual contains compulsory requirements for all contractors and implementing partners under contracts and financing agreements. It also encourages implementing partners to develop a communication and visibility plan enhancing EU's visibility.

Visibility requirements evolved over time for blending operations. In the early period, they were

rather light and agreed upon more informally (e.g. mention of the respective facility in the contracts related to the project and involvement of the EU in project-related events). They became more demanding and structured with the 2014 blending governance changes. Communication and visibility is a specific item of the indicative budget of the project in the Application Form dated August 2014. The EU 2014 Guidelines accompanying the application form of blending facilities indicates that a communication and visibility action plan shall be discussed at preparation stage and that it shall be annexed to the contract. The January 2016 Application Form includes a specific section on visibility as well as an annex to present the communication and visibility action plan. The EU 2016 Guidelines accompanying the application form of blending facilities includes for the communication and visibility plan reference to the 2010 EU Visibility manual as an hyperlink. Some representatives of IFIs HQ indicated that precise communication and visibility plans are now usually prepared during the inception stage of a project.

The 2015 Guidelines on EU blending operations indicate that 'visibility of EU funding must be assured'. It refers to the 2010 Manual for 'guidance on how to standardise and convey the EU's written and visual identity across all of its actions' and stresses that 'its requirements also apply to blending'. Three requirements are put forward: all actions funded by the EU should i) 'incorporate information and communication activities' and ii) ensure 'EU's written and visual identity'; and iii) the beneficiaries of EU support shall 'implement visibility provisions'.

The 2015 Guidelines on EU blending operations recommend 'the EUD or headquarters to follow up to ensure that contractual obligations regarding visibility are upheld. The first step in this regard is to determine whether a project communication plan or strategy has been drafted.' Amongst the projects examined in depth, approved between 2008 and 2013, blending operations generally did not factor into their design specific communication strategies. Two exceptions are worth noting: AFD projects WASH/PNA-ONEP/MA #30 and MULTI/SustDev/CO #19 which include a specific communication/knowledge dissemination component.

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): la Belgique finance le volet d'assistance technique 'communication/sensibilisation' du projet. Ce volet vise davantage à assurer la sensibilisation de la population à l'assainissement et ne traite pas de la visibilité de l'UE en tant que telle. (Source: Interviews in Morocco).

MULTI/SustDev/CO #19 (2013-AFD-TA): The project includes a sub-component within Component 2 financed by the LAIF contribution on 'Dissemination of knowledge and best practices' to disseminate results and lessons learned from the activities developed with the LAIF funding. Planned activities include 'workshops, forums and publications of a series of documents presenting the experiences financed with the LAIF'. (Source: AFD, Annex I to contract, 2013).

The NIF mid-term review covering the period 2007-2013 also notes that 'NIF lacks of a comprehensive communication and visibility strategy and action plan, while the establishment of a visibility strategy and plan is recommended by EC policies on visibility'.

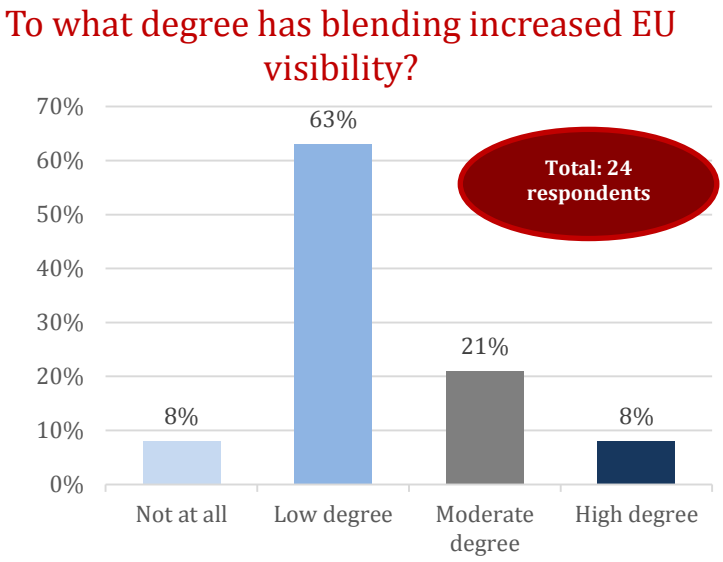
I-8.3.4 Effects of these visibility actions on EU visibility vis-à-vis other IFIs and donor countries

Overall

The review of the 23 blended projects shows that:

- While some visibility actions were often implemented (press-releases and other media coverage (e.g. presence at press conferences); opening ceremonies; acknowledgement of the EU support during workshops and in studies; display of EU logos on billboards; etc.), overall EU visibility was perceived as being mixed (10/23 cases) or low (11/23 cases) in 21 cases out of 23, with national partners and/or end-beneficiaries often not being well informed that the EU contributed to the financing of the projects. Visibility generally remained in the hands of the lead IFI. More generally, EU visibility suffered from the absence of implementation of a comprehensive dedicated EU communication strategy.
- The EBRD -contrary to the other IFIs- made specific efforts to report in detail on the actions realized to provide visibility to the EU.

This is confirmed by the survey results that show that an important majority of the EUD respondents (71%) consider that blending had a null or a low effect on increasing EU visibility.



The Court of auditors notes (2014): 'The Court's examination of individual projects and the survey of EU delegations showed that the financial institutions have so far provided only limited visibility of EU grants in blended projects. Reasons include: (i) the contractual framework does not contain clear and concrete rules or instructions for financial institutions with regard to visibility; (ii) with the exception of the Communication and Visibility Manual for EU External Actions, which was drawn up for projects implemented by the Commission, there are currently no particular rules or guidelines adapted to the specific characteristics of blending; (iii) With the exception of a few cases, there are no budgets allocated to visibility; (iv) Reporting on efforts to provide EU visibility is not required. (Source: European Court of Auditors, The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, 2014).

The NIF Mid-term evaluation (covering 2007-2013) indicates that 'visibility actions have been implemented and visibility clauses are included in NIF contracts. However communication has been fragmented and overall visibility deserves to be reinforced. The evaluation recommends the

development of a communication and visibility strategy and action plan, in close coordination with key stakeholders. Effective web-based tools should be established, to provide adequate visibility on the web, with publication of key documents and decisions about projects and pipelines.' (…) The level of visibility is generally perceived as low and varies geographically, as case studies evidenced that satisfactory levels of visibility were achieved in only three projects out of eleven'.

Illustration of detailed facts and findings at project level:

EIB staff interviewed in HQ considered EU visibility positive for all EIB-led projects. Usually visibility takes the form of mentions and presence at press conferences and opening ceremonies, but also includes participating (at Delegation level) in the policy dialogue. This was especially the case in Cairo – where the EU Delegation was well connected to Ministers and other senior officials. (Source: EIB HQ interviews). The project documentation for the EIB-led projects reviewed does not expand on the visibility actions undertaken.

Cases of relatively good EU visibility:

OTHER/TA Munic/UA #34 (2008-EBRD-TA): For the 6 funded TA assignments under this project, 'the consultants and the Client have been and will continue to provide visibility to the EU where appropriate. Examples for this are as follows: (i) the support of NIF is acknowledged in presentations and workshops during Project implementation; (ii) announcements on the Client's and the City's website have been published advising on the support provided by NIF to the specific projects; (iii) the support of NIF is and will be acknowledged in the Consultant reports, studies and press-releases. The NIF progress reports also report on visibility measures taken for individual project. For the Dnipropetrovsk Metro Extension Project, the NIF progress report n°5 notes that 'the Client, in coordination with the Bank, has taken all appropriate measures to ensure that the funding received from the EU is well publicised. The press-releases and other media coverage (interviews in the local press and TV channels, project-related speeches) related to the Project issued by the Client/City have emphasised the EU's support in financing this assignment and thanked the EU for this support. The support of EU NIF has been acknowledged in presentations and workshops during project preparation as well as during public hearings (including information sessions with the City Council members) and other public events necessitated by the project preparation process.' Source: Progress report n°5 covering the period January-December 2014

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Overall visibility requirements (logos, billboards) have been respected and it is well-known at national and local levels that the EU contributes to the financing of the project. Concernant le volet d'assistance technique 'communication/sensibilisation' financé par la Belgique, un manuel de stratégie de communication ainsi que des plans d'action régionaux pour l'assainissement ont été réalisés ; et des facilitateurs déployés sur le terrain pour organiser des événements de sensibilisation dans les écoles, auprès d'associations de femmes, etc. La grande implication des équipes de l'assistance technique et de l'ONEE en charge de la communication au niveau régional est soulignée; les actions de communication et le phasage des travaux dans les centres sont bien articulés. (. Ces actions visent l'acceptation par la population des travaux d'assainissement et ne concernent pas la visibilité de l'UE en tant que telle. (Source: AFD, Aide-Mémoire 2014; Interviews in Morocco)

Cases of mixed EU visibility:

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): An article was published on the rehabilitation of the metro in the local media in October 2011. It specifies the NIF contribution. (Source: Noyan Tapan Weekly, October 2011). The 2012 EU ROM report notes that 'visibility of

the EU has been supported extremely poorly' (…) 'There is no Communication and Visibility Plan in evidence, which is a currently a requirement for projects funded by the EC'. The field visit shows that compliance with visibility requirements has not been directly assessed. This project was probably the best opportunity for visibility and it interacted with the public. The rehabilitated carriages have two signs in each carriage but more could have been achieved at Metro station entrances. (Source: beneficiary office visits, site visits, interview with EUD in Armenia).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): EBRD project progress reports, the EBRD operation assessment performance report and EU ROM reports do not evidence any particular visibility/communication action. The field visit shows that the national entity in charge of implementing the project is aware about EU contribution. Furthermore, end users are informed about the EU contribution by the billboard on the segment of road that has been built from NIF grant. But visibility is affected by the fact that contracts are signed by IFIs with the government, on behalf of the EU. (Source: interview with State Road Administration)

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): An EU leaflet (2 p.) presenting the project was produced in 2011. Progress/completion reports do not report on visibility actions. (Sources: EBRD, OPA report, 2015; EBRD, TIMS, 2014; EBRD, Final technical and financial report, 2013; Quarterly progress report, 2013). Beneficiaries met are aware of the EU contribution to the project. On each trolley bus, there are stickers with EU logos. Besides, officials from the EUD have participated to project-related events. An EU representative was for instance present at the launch of the project, when the first trolley buses were procured. But visibility is affected by the fact that contracts are signed by IFIs with the government, on behalf of the EU. (Source: interviews with the Municipality and Transport company).

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): Project progress reports do not include any information on visibility actions. (Source: EIB Project Progress Reports for 2013 and 2014). Independent studies conducted on the solar plant do not include any information either. (Source: Climate Policy Initiative, San Giorgio Group Case Study: Ouarzazate I Morocco, 2012; Wuppertal Institute; Germanwatch (2015): Social CSP – Energy and development: exploring the local livelihood dimension of the Noor I CSP project in Southern Morocco.). The site visit shows that EU logos have been displayed in reports/presentations. It is well-known that the EU contributes to the financing of the project. However stakeholders pointed out that EU visibility suffers from the absence of a dedicated communication strategy at EU level. (Source: Interviews in Morocco).

WASH/IWSS/MD #11 (2009-EBRD-TA): The NIF annual report includes a specific section on donor visibility which indicates that 'EBRD and consultancy reports carried a disclaimer stated in the contribution agreement (where relevant) as well as the acknowledgement of the funding by EU NIF. The consultants and the Client provided visibility to the European Union where appropriate. Examples for these are as follows: (i) the support of EU-NIF was acknowledged on presentations and workshops during Feasibility Study preparation; (ii) announcement on the Client's and Chisinau City's website that the support was provided by EU NIF to the Feasibility Study preparation; (iii) the support of EU-NIF has been acknowledged in the Feasibility Study.' (Source: NIF annual report 2012). The field visits indicates that visibility is affected by the fact that contracts are signed by IFIs with the government, on behalf of the EU. (Source: Interviews in Moldova).

WASH/IWRM/CO #20 (2013-AFD-TA): For the pilot project of Lake Tota, there were mixed levels of EU visibility. Beneficiaries met were not well aware that the EU was financing the project while EU logos have not been used on the equipment financed through the project. In the case of

the restoration of the house of the Salto de Tequendama, EU visibility requirements were respected with the use of EU logos on the posters/PPT presentations etc. (Source: Interviews in Colombia)

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): EU role is deep in the background with the IFIs, but EU visibility to end users is very limited. The 2014 Progress report and interviews in the field show that PFIs are aware of the EU as a funding source. They also show that opportunities for donor visibility are limited given the nature of this support (risk sharing): external communication might not always be appropriate due to potential moral hazard. As a result, end beneficiaries are not fully informed about the type of support provided by the EU grant. Appropriate donor visibility has been put in place in consultancy contracts, and the donor is quoted in consultants' reports and various presentations. Hence, KfW has integrated the EU-logo in the Loan Officers Manual developed by the TA consultant. The partner PFI mentions the support of the EU on its website. (Source: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015 ; Interviews in Moldova and in Georgia).

MULTI/SustDev/CO #19 (2013-AFD-TA): At strategic level, the project gave high visibility and political credibility to the AFD/EU in the field of urban development, an area where the IDB and the WB were the only recognised international actors so far. The project included a specific component on visibility with three sets of activities envisaged (workshops, forums and publication of documents). This is a good practise to ensure EU visibility. For instance, the forums organised (e.g. visibility event on the LAIF programme in Cartagena in May 2014) have been a way to increase EU visibility. However, during the site visit in Monteria, EU logos were not used in the presentations/documents received while beneficiaries met were not fully aware that the EU was financing the project. (Source: Interviews in Colombia; Informe de seuimiento al programa LAIF AFD/Findeter, 2014)

Cases of low EU visibility:

TRANS/Corridor/MZ #26 (2008-EIB-IRS): Project progress reports do not include any information on visibility actions. (Source: EIB Project progress reports 2012-2013 and 2014). The field visit shows that visibility of EU support is limited. Whilst it is acknowledged that EIB is part of the EU family, this is only appreciated to a limited degree by national partners. (Source: Interviews in Mozambique).

TRANS/PortWalvis/NA #4 – (2009-KfW-TA) & #1 (2008-EIB-IRS): There was limited EU visibility. All documentation does indeed identify financing partners (EIB, KfW, AFD and, occasionally, AITF) but there is a) a common perception of 'ownership of visibility' by the lead IFI and b) that such IFIs are perceived as not being 'EU' although recognized as 'European'. (Source: Interviews in Namibia).

TRANS/PAPN/CG #41-42 (2009-AFD-TA&IRS): The agreement with ITF contains visibility requirements that are followed by the IFI at the HQ level. The IFI local agency as well as the EUD are not well aware of these requirements. The EUD considers its visibility limited because the project is conducted by the lead IFI, and because the financial involvement of the EU in the project is quite limited. The majority of the management staff of the PAPN perceived the project as an AFD-EIB project. Only the person involved in the negotiations of the contract with the IFIs was aware that the interest rate was subsidized, and that the TA was funded by an EU grant. (Source: interviews with IFI, EUD and beneficiaries)

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): Project progress reports do not include any information on visibility actions. (Source: EIB Project progress reports 2013 and 2014). While visibility requirements were not specifically checked, it was noted that the project signs clearly marked the EU at the same level as the IFIs during the site visits (Source: site visits in Egypt).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): Project progress reports do not include any information on visibility actions. (Source: KfW Quarterly Project reports from 2011 to 2015). KfW HQ staff interviewed in July 2015 noted that visibility requirements were met. While visibility requirements were not specifically checked, it was noted that the project signs clearly marked the EU at the same level as the IFIs during the site visits (Source: site visits in Egypt).

WASH/IWSP/EG #14 (2008-KfW-Grant): Public communication was defined as a specific task under the Lot B Consulting Service Contract. Progress Report 10 (March to May 2013) states that "Communication support to Gharbia and Damietta AC's public awareness & relations units commenced this quarter and that it is planned to develop a corporate communications strategy & plan for both ACs during the next quarter." The mid-term review (2014) concludes 'that no substantial actions with regard to public awareness campaigning were initiated and / or executed since the start of program.' (Source: BCT Technology enterprises, Mid-term review, 2014.) While visibility requirements were not specifically checked, it was noted that the project signs clearly marked the EU at the same level as the IFIs during the site visits (Source: site visits in Egypt).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): Visibility of the EU was low. Although the EU was present at official functions, visibility in the case of SUNREF was practically zero at end beneficiaries' level. All interviewees viewed this as a French (AFD) and KAM (Kenya Association of Manufacturers) project. However, recently the EU logo has been placed on consultant reports to substitute for the less known ITF logo – which could improve visibility in the future. (Source: Interviews in Kenya)

BANK/EFSE/MC #36: For the EFSE, the EU role is deep in the background (at Fund level in Luxembourg for EFSE). Whenever a loan is provided by EFSE, there is a presentation of the fund, with a clear indication of its sources of financing (the EU is mentioned, and its logo appears in the presentation). However, the awareness about the EU contribution was limited in one of the partner FI and to end-users. At regional level, the EU is invited to participate to EFSE events, such as its annual meeting. The EUD of the country where the meeting is held is invited to actively participate, for instance by doing the welcome speech. Sometimes, despite the invitation, no one from the EU is present. (Source: interviews with IFIs and financial beneficiaries in Moldova and in Georgia).

ENER/SEFF/MA-JO #35: The EBRD has a dedicated team in London for communication/visibility that is reported as being very qualified (production of leaflets, movies etc.). A launch event for the MorSEFF giving visibility to the donors involved (EU HoD present) was organised. This brought attention from the media. However, the visibility of the MorSEFF remains too timid for final beneficiary enterprises despite the presence of the BMCE in fairs. (Source: EBRD HQ interviews, July 2015; Interviews in Morocco).

ENER/WAPP/REG #2 (2009-EIB-TA); **ENER/ERERA/REG #3 (2008-AFD-TA:** little information could be found on EU visibility, including in the EU-IFI agreements. From interviews in the few countries visited in the region it appears that it is clear that these initiatives were funded by donors, but there is no strong awareness of the EU in itself.

9 EQ 9: Results

To what extent have the projects funded through blending contributed to development outcomes in the infrastructure-related sectors, climate change and private sector development and in how far have they benefited the poor and disadvantaged groups?

9.1 Methodology, rationale and sources of information

Methodology

The methodological approach applied is summarised in table below:

Methodological approach
The team applied for each selected project an approach aiming at gathering evidence related to (i) link in the cause-and-effect chain and (ii) other explanations so as to develop a step-by-step chain of arguments on the contribution of blended projects to development impacts. It consisted in the following steps:
1. Examine the quality of the design of blended projects: ▪ Assess the reliability of the expected transmission chain from key intended activities, until outputs, results and impacts of blended projects ▪ Assess the geographical areas and final beneficiaries targeted by blended projects ▪ Assess whether poverty-targeting objectives have been set at design stage and if so examine the corresponding actions envisaged The analysis has been first realised through in-depth documentary study of project level documents (grant applications/contracts/project fiches) and then completed with the views of key stakeholders (e.g. IFIs and EU representatives, beneficiaries and final beneficiaries). 2. Examine whether the implementation of blended projects occurred as planned up to date: At activity level: ▪ Review the activities that have actually been implemented with blended projects so as to determine whether all planned activities of the blended projects have been (or are being) implemented as planned: i.e. on time, at cost and more generally according to agreed specifications ▪ Identify the reasons explaining the changes in implementation in case of deviation compared to the initial planning At output level: ▪ Identify the outputs actually achieved up to date with blended projects so as to determine whether all planned outputs have materialised (or are materialising) ▪ Assess whether other contributing factors (e.g. other projects, domestic policies) have influenced observed outputs ▪ Determine the relative importance of blended projects to observed outputs The analysis has been first realised through in-depth documentary study of project level documents (monitoring and evaluation reports). The team then conducted on-site visits so as to directly observe the activities and outputs achieved so far with blended projects. It also collected the views of key stakeholders (e.g. IFIs and EU representatives, beneficiaries and final beneficiaries) on the activities and outputs achieved so far with blended projects, as well as on other contributing factors.
3. For (near-) completed blended projects, examine whether they are likely to deliver development results: Assess whether: ▪ Blending projects actually reached the (final) beneficiaries targeted at design stage. If so, assess who actually benefitted, with a specific lens on whether the poorest communities benefitted ▪ Beneficiaries have effectively used the knowledge and expertise transmitted with blended projects ▪ Beneficiaries have effectively used the achieved outputs

- Blended projects achieved (or are likely to achieve) results with potential development impact so as to determine whether all planned results have materialised (or are materialising)
- Other contributing factors had an influence on observed results (e.g. other projects, domestic policies)
- And then determine the relative importance of blended projects to observed results

The analysis has been first realised through in-depth documentary study of project level documents (monitoring and evaluation reports). The team then conducted on-site visits so as to directly identify the beneficiaries and observe the results achieved so far with blended projects. It will also collect the views of key stakeholders (e.g. IFIs and EU representatives, beneficiaries and final beneficiaries) on the above-mentioned results-related issues.

Rationale for the EQ:

The EQ assesses the results achieved so far by the projects funded through blending and their contribution to development outcomes with a specific focus on their influence on poverty eradication. It covers three major areas of expected results of blending: infrastructure-related sectors (e.g. transport, energy, water, etc.), adaptation and mitigation to climate change and private sector development. It examines (i) the design of the projects; (ii) whether the implementation of the projects occurred as planned; (iii) for (near-) completed projects, whether the projects are likely to deliver development results; and (iv) results in terms of job creation.

The findings across the three main issues dealt with the Judgement Criteria (design/implementation/ results) of this EQ are similar across the three sectors we examined. With a view to ease the reading and avoid unnecessary repetition, the drafting of this EQ has therefore been articulated around the three main issues (design/implementation/ results) across sectors in collapsing the JCs. Besides, due attention has been devoted to underline the specificities observed at sector/project level. The effects in terms of job creation are examined in a specific JC.

Detailed sample of projects

The question is based on the detailed review of a sample of twenty-one projects across the three areas (13 in infrastructure-related areas; 6 in climate change and 2 in PSD). For this review, the team selected in priority blending projects for which outputs and (likely) results were achieved. In addition, some relevant information for four additional projects (Projects #4, 5, 11 and 34) was included where relevant. These four projects were not covered in detail throughout the question because they focus on feasibility studies or master plans -without concrete results to be witnessed- or because results have not yet materialized (#34).

Selected for EQ9 review	Infrastructure-related	Climate change-related	PSD-related	Project #	Project abbreviation	Title	Facility	Lead IFI	Year	Status as of May 2016	Total amount from EU budget M€	Type of support
1	1			1	ENER/C.Intercon/NA-ZM	Caprivi Interconnector	ITF	EIB	2008	Closed	15 000 000	IRS
1	1			3	ENER/ERERA/REG	ECOWAS Electricity Regulation (ERERA)	ITF	AFD	2008	Closed	1 700 000	TA
1		1		8	ENER/Ukrenergo/UA	EBRD-03 Ukrenergo Corporate Sustainable Development	NIF	EBRD	2009	Closed	786 137	TA
1	1			9	TRANS/MetroRehab/AM	AM-01 Yerevan Metro Rehabilitation	NIF	EBRD	2010	Closed	5 000 000	Grant
1		1		10	TRANS/PublicTrans/MD	MD- 03 Chisinau Public Transport Project	NIF	EBRD	2010	Closed	3 000 000	Grant
1			1	12	IND/SME Facility/REG	EBRD-13 SME Facility - EBRD / KfW window	NIF	EBRD	2010	Ongoing	10 200 000	Guarantee
1	1			14	WASH/IWSP/EG	EG-01 Improved Water and Wastewater Services Programme (IWSP) - NIF contribution	NIF	KfW	2008	Ongoing	5 000 000	Grant
1		1		15	ENER/O.SolarPlant/MA	Ouarzazate Solar Plant – First Phase	NIF	EIB	2011	Near completion	30 000 000	Grant
1	1			19	MULTI/SustDev/CO	LAIF contribution to the project "Towards a sustainable development of cities and regions in Colombia"	LAIF	AFD	2013	Ongoing	5 200 000	TA
1	1			26	TRANS/Corridor/MZ	Beira Corridor	ITF	EIB	2008	Closed	17 828 380	IRS
1	1			27	WASH/LVWATSAN/UG	Kampala Water - LVWATSAN	ITF	KfW	2010	Near completion	8 000 000	TA
1				28	WASH/LVWATSAN/UG	Kampala Water - LVWATSAN	ITF	KfW	2010	Near completion	14 000 000	IRS
1	1			29	TRANS/RoadRehab/MD	MD-02 Moldova Road Rehabilitation project	NIF	EBRD	2008	Closed	12 000 000	Grant
1	1			30	WASH/PNA-ONEP/MA	MA-04 Programme National d'Assainissement (PNA-ONEP) - Phase I	NIF	AFD	2010	Ongoing	10 000 000	TA/Grant
1	1			31	ENER/PowerTrans/EG	EG-03 Egyptian Power Transmission	NIF	EIB	2010	Ongoing	16 000 000	TA/Grant
1		1		32	ENER/Wind Farm/EG	EG-02 200 MW Wind Farm in Gulf of El Zayt - NIF contribution	NIF	KfW	2008	Ongoing	10 000 000	Grant
1	1			33	WASH/SMWP/AM	AM 02 - Armenian Small Municipalities Water Project	NIF	EBRD	2010	Near completion	7 000 000	Grant
1		1		35	ENER/SEFF/MA-JO	SEMED Regional Sustainable Energy Finance Facility : Phase 1 – Morocco and Jordan Sustainable Energy Finance Facility (SEFF) – Implementation Support	NIF	EBRD	2013	Ongoing	16 830 000	Grant
1			1	36	BANK/EFSE/MC	KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	NIF	KfW	2009	Ongoing	5 100 000	RC
1				41	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	2009	Closed	2 000 000	TA
1	1			42	TRANS/PAPN/CG	Port de Pointe Noire (PAPN)	ITF	AFD	2009	Closed	6 600 000	IRS
1		1		44	ENER/Env.Credit lines/REG	Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects.	ITF	AFD	2010	Closed	2 000 000	TA
1	1			47	ENER/PowerRehab/BE-TO	Benin - Togo Power Rehabilitation	ITF	EIB	2009	Near completion	12 250 000	IRS
21	13	6	2									

9.2 Evaluation Question

Summary

- Blended projects were designed to impact in the three major areas of expected impact: socio-economic infrastructure, climate change and PSD. The design was sound overall and often supported by detailed feasibility studies, but in most cases the transmission chain from activities until results not sufficiently spelt out in design documentation, risks often insufficiently well-defined and/or dealt with, and quantifiable targets to be reached usually not defined.
- Until end 2013, the design of blending projects generally did not have a strong and compelling pro-poor targeting. Blending projects examined in depth present a modest record in terms of pro-poor dimension both during design and implementation. But one should recall that these large-scale infrastructure operations were in general expected to contribute to poverty reduction through their indirect impacts on economic growth. Besides, the project design process put increased attention on poverty related issues with the 2014 blending governance changes. The evaluation team could not as yet observe the effects of these changes since the projects selected for in-depth review were designed between 2008 and 2013.
- In the vast majority of cases, the implementation of blending projects suffered setbacks that delayed the achievement of project milestones. Implementation delays often occurred due to the quality of project design and monitoring, professional competencies of the beneficiaries, administrative issues and country specificities, in particular political stability. The extent of delays was mostly within what can be expected from large complex projects operating in difficult environment.
- In almost all cases reviewed, blended projects achieved (or were likely to achieve) the planned outputs, mostly owing to the fact that mitigating action has often been taken during project implementation to manage difficulties
- Beneficiaries generally used with satisfaction the outputs achieved by blending projects
- Blending also shows a positive record of success in terms of (likely) results for (near-) completed projects in the infrastructure related and climate change areas. For the two examined PSD related projects, it is too soon to report on results beyond the use of the outputs made by the beneficiaries because the projects are still ongoing. Besides quantification of the results achieved was generally scarce.
- Effects in terms of job creation were often not envisaged at design stage and remained modest during/after implementation.

9.3 Judgement Criteria

JC9.1, JC9.4, JC9.7 Blended projects have been designed to enhance access and use of key socio-economic infrastructure, to enhance adaptation and mitigation to climate change, or to foster the growth of SMEs

Summary for JC 9.1, 9.4, 9.7 Blended projects have been designed to enhance access and use of key socio-economic infrastructure, to enhance adaptation and mitigation to climate change, or to foster the growth of SMEs

- The design of blended projects was sound overall, with some caveats
- Blended projects generally targeted strategic opportunities and challenges across regional, country and/or local levels
- Blending projects targeted more environmental objectives than non-blending projects, and particularly climate adaptation
- Until 2014, the design of blending projects did not have a strong and compelling pro-poor targeting
- Blending projects examined in depth present a modest record in terms of pro-poor dimension
- The project design process put increased attention on poverty related issues with the changes in the blending guidance framework since 2014

The design of blended projects was sound overall, with some caveats (I-9.1.1, I-9.4.1, I-9.7.1). The twenty-one blended projects selected for in-depth review were designed in most cases to develop key socio-economic infrastructure and promote energy efficiency and renewable energy. Some projects also aimed to develop SMEs. The design documentation generally details the envisaged activities, expected results and overall objectives pursued.

Box 2 - Examples of objectives pursued by blended projects in the three major areas

Key socio-economic infrastructure

- ENER/C.Intercon/NA-ZM #1 aimed to secure energy supplies for Namibia through the provision of an interconnector between the Namibian, Zambian and Zimbabwean transmission networks.
- TRANS/Corridor/MZ #26 aimed to re-establish the original transport capacity of the port of Beira and of the Sena railway line forming part of the Beira Corridor Transport System so as to fulfil traffic demands of several provinces in Mozambique and of the neighbouring countries (Zimbabwe, Malawi, Zambia and Botswana).
- WASH/PNA-ONEP/MA #30 in Morocco aimed to enhance sanitation services throughout the country through extension and rehabilitation of networks as well as through the construction of wastewater treatment plants.

Climate change

- ENER/Wind Farm/EG #32 aimed to provide electricity from renewable energy sources for the Egyptian population and to contribute to global environmental protection.
- TRANS/PublicTrans/MD #10 aimed to improve public transport service and to ensure sustainability of an energy efficient and environmentally friendly means of transport by upgrading Chisinau's trolleybus fleet.

Private sector development

- BANK/EFSE/MC #36 aimed to attract private capital and thereby leveraging investments for the development of the private sector, in particular MSME and housing.

The evaluation team reviewed in detail the expected transmission chain from activities to results and impacts of the projects selected for in-depth review and found that in most cases the logic of the results chain was sound though not clearly spelt out in the design documentation nor made

explicit through a logical framework[163]. In addition, quantifiable targets to monitor progress over time were generally not defined at design stage[164]. For instance, 30% (or 5 out of 46) of the sampled projects in the energy sector defined quantifiable targets to be reached concerning greenhouse gas emission reduction. However, the design of the projects often relied on and benefitted from detailed feasibility studies -see also JC6.1- (e.g. Projects ENER/C.Intercon/NA-ZM #1, TRANS/PortWalvis/NA #4, TRANS/RoadRehab/MD #29, TRANS/MetroRehab/AM #9, TRANS/PublicTrans/MD #10, ENER/Wind Farm/EG #32), environmental and social studies (e.g. Project ENER/O.SolarPlant/MA #15), detailed economic and financial analyses (Project ENER/Ukrenergo/UA #8), or fitted in with identified investments as proposed in Master Plans (Project ENER/PowerTrans/EG #31). In addition, efforts were made at design stage to identify risks and mitigating measures for most of the reviewed blending projects. In some cases (e.g. Project ENER/C.Intercon/NA-ZM #1 and Project TRANS/Corridor/MZ #26), risk management and control mechanisms were not sufficiently defined to allow for timely corrective action.

Sources of information: Feasibility studies; project application forms; identification documents; EU financing agreements; progress and final reports; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

Blended projects generally targeted strategic opportunities and challenges across regional, country and/or local levels (I-9.1.2; I-9.4.2; I-9.7.2). For instance Project TRANS/MasterPlan/NA-REG #5 serves Namibia and the landlocked countries, Namibia being a gateway and transit country for the Southern Africa region; Project WASH/IWSP/EG #14 targets both urban and rural areas in four Governorates in the Nile delta, where high residential occupancies prevail and agriculture activities are highly intensive; Project MULTI/SustDev/CO #19 targets several cities within regions presenting a large social disparity. Moreover, blended projects providing credit lines in support of renewable energy targeted countries in need (Project ENER/Env.Credit lines/REG #43-44: Kenya, Tanzania, and Uganda which intensively use biomass fuel and suffer from a severe lack of access to electricity) or countries presenting a potential for improving energy efficiency and developing renewable energy resources (e.g. Morocco and Jordan for Project ENER/SEFF/MA-JO #35). In addition, the location of the projects financing solar plants or wind farms (Projects ENER/O.SolarPlant/MA #15 and ENER/Wind Farm/EG #32) was the subject of a specific analysis (e.g. degree of sunlight, wind conditions, ecological sensitiveness).

Sources of information: Feasibility studies; project application forms; identification documents; EU financing agreements; progress and final reports; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

Blending projects targeted more environmental objectives than non-blending projects, and particularly climate change mitigation (I-9.4.1). The statistical analysis of the Rio markers on climate change mitigation and climate change adaptation made for all EU projects approved during the period 2007-2014 in the 13 countries visited by evaluation team shows that blending projects targeted more both climate change adaptation and climate change mitigation than non-blending projects at design stage, and that blending projects also put more emphasis on climate change

[163] A full logical framework matrix was prepared for only one project (TRANS/Corridor/MZ #26), and a rather brief one was made for another project (WASH/IWSP/EG #14)

[164] Three projects are exceptions (Projects MULTI/SustDev/CO #19, TRANS/Corridor/MZ #26, ENER/SEFF/MA-JO #35)

mitigation than on climate change adaptation. Indeed, 31% of the blending projects considered climate change adaptation as a significant or main objective in comparison to 5% of the non-blending projects, and 55% of the blending projects considered climate change adaptation as a significant or main objective compared to 6% of the non-blending projects. The fact that blending projects have been more strongly focused on the energy and transport sectors than non-blending projects could partly explain this difference between blending and non-blending projects. But the statistical analysis shows that even within the same sector (e.g. energy), blending projects targeted more climate change adaptation and climate change mitigation than non-blending projects.

Sources of information: Inventory of blending projects.
Quality of evidence: More than satisfactory.

Until end 2013, the design of blending projects generally did not have a strong and compelling pro-poor targeting (I-9.1.3 & I-9.1.4; I-9.4.3 & I-9.4.4; I-9.7.3 & I-9.7.4). Poverty-reducing challenges and the link to poverty reduction was often not explicitly stated in the design documentation of most examined projects across the various sectors and facilities. Three infrastructure-related projects (WASH/LVWATSAN/UG #27-28 ITF; WASH/SMWP/AM #33 NIF; MULTI/SustDev/CO #19 LAIF) -financed with three distinct facilities- are an exception with a relatively marked poverty lens (see details in the below paragraph). With identified benefits usually being confined to the physical outputs of the projects, the design documentation of the examined projects does not refer to final beneficiaries. This is also the case for the two NIF PSD-related projects that do not explicitly designate final beneficiaries in the design documentation.

Sources of information: project application forms; EU financing agreements; progress and final reports; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

Blending projects examined in depth generally show a limited pro-poor dimension (I-9.1.3 & I-9.1.4; I-9.4.3 & I-9.4.4; I-9.7.3 & I-9.7.4).

- Out of the twenty-one projects reviewed, six infrastructure-related blended projects financed through ITF, NIF and LAIF had a direct poverty alleviation focus related to the targeting of poor geographical areas. Project WASH/LVWATSAN/UG #27-28 focused on water and sanitation services for the urban poor in the Lake Victoria Basin. Project WASH/SMWP/AM #33 focused on water and wastewater services for the poorer areas of the country. However the TIMS does not report on poverty-related actions or effects. In Egypt, two projects (WASH/IWSP/EG #14; ENER/PowerTrans/EG #31) that had little over poverty alleviation focus however targeted poor rural areas. Project #14 is implemented in four governorates in Egypt, with two of them presenting a poverty rate of respectively 20% and 28%. Project #31 has served greater development goals but included a pro-poor aspect related to the targeting of underserved rural areas. For the ongoing Benin Atlantic power project, the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity. The LAIF project MULTI/SustDev/CO #19 has an explicit poverty-lens (in focusing on the reduction of regional development gaps) and it often supported the pre-investment phase of projects to be financed in cities presenting a strong poverty rate (e.g. Monteria, Cartagena, Valledupar). Finally, while BANK/EFSE/MC #36 does not have a strong pro-poor dimension, the micro-finance institutions targeted in Moldova used access to finance instruments to reach less privileged market segments, that is most vulnerable MSMEs.
- A large body of evidence suggests that public infrastructure capital has a significant and positive effect on economic growth, which in turn contributes to the alleviation of poverty. Transport projects rather used indirect approaches to poverty reduction: they were designed to contribute

to economic growth and less so to target the transport needs of the poor. They assumed a contribution to poverty reduction stemming from broad based economic development. Moreover, water supply and sanitation investments are recognized to boost economic growth and make countries more resilient to rainfall variability. They also benefit poor people most. Finally, energy efficiency and climate change related projects also have a recognized potential for positive socio-economic development, particularly through the creation of new activities and employment; the generation of incomes for landowners; the reduction of rural migration; and the use of local resources instead of imports.

- Infrastructure and climate change related blending projects examined in depth often focused on macro levels of economic development with an assumed 'trickle down' impact upon poverty. It concerns the two closed ITF projects (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26) which intended to contribute to economic development and poverty alleviation; the Port of Pointe Noire project (TRANS/PAPN/CG #41-42); the Road Rehabilitation project in Moldova (TRANS/RoadRehab/MD #29); several of the ongoing NIF projects assuming a potential for large scale development (ENER/O.SolarPlant/MA #15 and ENER/Wind Farm/EG #32).
- The two examined private sector support projects (IND/SME Facility/REG #12 and BANK/EFSE/MC #36) do not have a pro-poor dimension as far as (final) beneficiaries reached are concerned. Indeed, IFIs tended to favour well off and existing customers because they are less risky. However, when working with micro-finance institutions such as in Moldova, EFSE (BANK/EFSE/MC #36) reached much poorer segments. Similarly, the MorSEFF credit line (ENER/SEFF/MA-JO #35) targeted fairly large enterprises demonstrating a good financial standing as sub-borrowers, which limits its poverty reduction effect.

Sources of information: project application forms; EU financing agreements; progress and final reports; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

The project design process put increased attention on poverty related issues with the changes in the blending guidance framework since 2014 (I-9.1.3 & I-9.1.4; I-9.4.3 & I-9.4.4; I-9.7.3 & I-9.7.4). Until end 2013, the information required at project approval stage, which differed across the types of application forms (i.e. ITF, NIF), generally did not put emphasis on poverty reduction aspects. The work of the EUBEC platform led end 2013 to a harmonised Grant Application Form and accompanying Guidelines so as to ensure a more effective project selection process. In order to report on the poverty level of the beneficiaries, and therefore reflect the socio-economic benefits achieved through blending, the 2014 and 2016 Application Form now includes one indicator to measure outcomes that is explicitly linked to poverty reduction ('the number of beneficiaries living below the poverty line') and one requirement linked to poverty reduction in the check list ('the project demonstrates clear expected direct or indirect poverty alleviation impact'). The team could however not assess this evolution at project level since the examined projects have been designed between 2008 and 2013.

Sources of information: EUBEC reports; AF templates and guidelines; Interviews with EU staff and IFIs in headquarters.
Quality of evidence: More than satisfactory.

JC 9.2, JC9.5, JC9.8 Blended projects have been implemented as planned in the design phase

Summary for JC 9.2, 9.5, 9.8 Blended projects have been implemented as planned in the design phase

- In more than half the cases reviewed, the implementation of blending projects suffered setbacks that delayed the achievement of project milestones
- Several factors explain these implementation delays: the quality of project design and monitoring, professional competencies of the beneficiaries, administrative issues and country specificities, in particular political stability
- The extent of delays was mostly within what can be expected from large complex projects operating in difficult environments and mitigating action has often been taken during project implementation
- In almost all cases reviewed, blended projects achieved (or were likely to achieve) the planned outputs, though often with delays

In more than half the cases reviewed, the implementation of blending projects suffered setbacks that delayed the achievement of project milestones (I-9.2.1 & I-9.2.2; I-9.5.1 & I-9.5.2; I-9.8.1 & I-9.8.2). When considering activities, eight out of the twenty-one projects reviewed (ENER/O.SolarPlant/MA #15; ENER/Ukrenergo/UA #8; TRANS/PublicTrans/MD #10; ENER/ERERA/REG #3; TRANS/MetroRehab/AM #9; TRANS/Corridor/MZ #26; IND/SME Facility/REG #12; BANK/EFSE/MC #36) occurred as per the design and specifications. For two of them (TRANS/Corridor/MZ #26 Port component; TRANS/MetroRehab/AM #9), project costs remained below budget expectations and additional activities/investments could then be financed with the IFI loan. The other projects examined experienced delays in implementation ranging from a few months (Projects MULTI/SustDev/CO #19; Benin-Togo Power Rehabilitation project LCO component; #33, ENER/C.Intercon/NA-ZM #1 with a 9-months delay) to up to 1 or 2 years (e.g. TRANS/Corridor/MZ #26 Railway component, TRANS/RoadRehab/MD #29; WASH/PNA-ONEP/MA #30; ENER/Env.Credit lines/REG #43-44 and ENER/SEFF/MA-JO #35). Usually delays affected the achievement of the project milestones but did not prevent completion of the projects. For example for the Moldova Road project (TRANS/RoadRehab/MD #29), even though activities were significantly delayed and varied in quantity, the works were realised.

Sources of information: Feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

Several factors explain these implementation delays: the quality of project design and monitoring, professional competencies of the beneficiaries, administrative issues and country specificities, in particular political stability. The design of the projects ENER/C.Intercon/NA-ZA #1 and TRANS/Corridor/MZ #26 were over-ambitious (with project objectives targeting rural electrification, regional integration and the well-being of the population for project #1) and risks were not adequately assessed. In addition, the concessionaire for project TRANS/Corridor/MZ #26 displayed poor performance overall to implement the project. This led the Government of Mozambique to terminate the concession and to select a new implementing agency. Similarly, for project OTHER/TAMunic/UA #34, several changes in the management of beneficiary companies led to delays. Administrative and procurement issues also delayed project implementation. They often resulted in lengthy preparatory phases: there were issues with procurement procedures and the information systems for project TRANS/PAPN/CG

#41-42; FINDETER has had to go through a steep learning curve to master the procurement guidelines of the LAIF (MULTI/SustDev/CO #19). Cases of slow contracor's/consultant's mobilisation were noticed for project WASH/LVWATSAN/UG #27-28 and project OTHER/TAMunic/UA #34. The deterioration of the political situation in Egypt in 2011 (Projects WASH/IWSP/EG #14; ENER/PowerTrans/EG #31; ENER/Wind Farm/EG #32) and Ukraine in 2013 (Project OTHER/TA Munic/UA #34) also affected the implementation of the projects. For instance, at the time of the site visit in November 2015, about 20% of the IWSP I water investments were completed due to the complex political situation as well as rushed contracting done under the D+3 requirement resulting in poor designs (Project WASH/IWSP/EG #14). Land issues related to the installation of wastewater treatment plants led to a one-year delay in the implementation of project WASH/PNA-ONEP/MA #30.

Sources of information: Feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

The extent of delays was mostly within what can be expected from large complex projects operating in difficult environments and mitigating action has often been taken during project implementation. For instance, in order to deal with the delays brought by the difficult political situation of Egypt, amendments to the consultancy contracts were signed for project WASH/IWSP/EG #14 to extend time duration to ensure sufficient time for project implementation.

Sources of information: Feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

In almost all cases reviewed, blended projects achieved (or were likely to achieve) the planned outputs within the costs envisaged, though often with delays (I-9.2.3 & I-9.2.4; I-9.5.3 & I-9.5.4; I-9.8.3 & I-9.8.4). Nine out of the thirteen infrastructure-related projects (ENER/C.Intercon/NA-ZM #1, ENER/ERERA/REG #3, TRANS/MetroRehab/AM #9, TRANS/Corridor/MZ #26, WASH/LVWATSAN/UG #27-28, TRANS/RoadRehab/MD #29, #42, WASH/SMWP/AM #33, Benin-Togo Power Rehabilitation project LCO component) achieved planned outputs; the remaining four (WASH/PNA-ONEP/MA #30; MULTI/SustDev/CO #19; WASH/IWSP/EG #14 and ENER/PowerTrans/EG #31) are still ongoing with part of the outputs being completed. More than half of the examined climate change related projects (ENER/Ukrenergo/UA #8, TRANS/PublicTrans/MD #10, ENER/O.SolarPlant/MA #15, ENER/Env.Credit lines/REG #43-44) completed outputs as planned; the remaining two (ENER/Wind Farm/EG #32, ENER/SEFF/MA-JO #35) that are ongoing are behind schedule but achieved some outputs. The two ongoing PSD-related projects (IND/SME Facility/REG #12 and BANK/EFSE/MC #36) achieved outputs as planned. The box below presents examples of achieved outputs.

Box 3 - What type of outputs have blending projects achieved?

Infrastructure related sectors

- ENER/C.Intercon/NA-ZM #1: the Caprivi Link Interconnector has been in operation since October 2010 and is operated by NamPower, the national utility of Namibia.
- ENER/ERERA/REG #3: further to the establishment of ERERA, a range of regulatory activities was carried out (e.g. assistance to Senegal river basin organisations to improve electricity exchanges; ECOWAS directive to have a legal framework on electricity exchanges).

- Benin-Togo Power Rehabilitation project LCO component: the Lomé-Cotonou-Onigbolo electricity line has been rehabilitated.
- TRANS/Corridor/MZ Port component #26: at the end of the project, a total of 9,468,412 m^3 had been dredged, including paid over-dredging, as compared to the contract's estimate of 7,919,000 m^3.
- WASH/SMWP/AM #33: sanitation networks in seventeen municipalities were rehabilitated and wastewater treatment plants were constructed in two of them.
- WASH/LVWATSAN/UG #27-28: the Gaba water treatment complex has been rehabilitated and the TA provided for network modelling and master planning introduced a full 'supply chain' approach to water provision to households in Kampala.
- MULTI/SustDev/CO #19: the project (i) delivered TA to develop FINDETER's support to the municipalities, (ii) enabled the financing of pre-investment studies for various municipalities, and (iii) supported the knowledge dissemination activities of FINDETER.

Climate change

- TRANS/PublicTrans/MD #10: the acquisition of trolleybuses resulted in improved services for the company's customers, in a context where trolleybuses had a lead position, transporting over 180 million passengers annually.
- ENER/Ukrenergo/UA #8: a tangible output is the adoption in 2011 of the Road Map for Corporatisation of the national energy company (Ukrenergo).
- ENER/O.SolarPlant/MA #15: the plant (Noor I) is running at full capacity since February 2016 with a production capacity of 160MW/hour as planned. It operates during approximately 12 hours per day and has a storage capacity of 3 hours to provide energy during peak periods.
- ENER/SEFF/MA-JO #35: the credit line awarded to BMCE has been fully engaged in one year. It concerns the financing of just above 50 projects (25 are ongoing and 27 are in portfolio) that are mostly in the sector of industry. The projects mostly concern energy efficiency investments. The average loan size is about €200,000.

Private sector development

- IND/SME Facility/REG #12: i) Under the Georgian Agricultural Finance Facility, the credit enhancement mechanism contributed to help the four benefiting micro-finance institutions to enter the agricultural segment; ii) Under the Ukraine SME Energy facility, 11 energy efficiency sub-projects for Euro 22.8m were signed in December 2014; and iii) Under the Moldova SME leasing, €2m has been disbursed to BT leasing, out of which 224 projects were financed.
- BANK/EFSE/MC #36: Since 2009, about 17 Participating Financial Institutions (PFIs) are active and 30 436 borrowers (MSMEs) benefited from the European Neighbourhood Small Business Growth Fund (ENBF) window of the EFSE. Since 2009, the total amount of loans disbursed is €999.7m and the number of loans disbursed is 108 263.

Sources of information: Feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

JC 9.3, JC 9.6, JC 9.9 Blended projects are likely to deliver development results

Note: Out of the 21 projects reviewed, 9 (ENER/C.Intercon/NA-ZM #1, ENER/ERERA/REG #3, ENER/Ukrenergo/UA #8, TRANS/MetroRehab/AM #9, TRANS/PublicTrans/MD #10, TRANS/Corridor/MZ #26, TRANS/RoadRehab/MD #29, TRANS/PAPN/CG #42,

ENER/Env.Credit lines/REG #44) are completed and 4 are near-completion (#15, 27/28, 33, 47); the others are ongoing with end dates between 2017 and 2021.

Summary for JC 9.3, 9.6, 9.9 Blended projects are likely to deliver development results

- The measurement of (likely) development results is constrained by the type of reporting carried out
- Infrastructure-related (near-) completed projects present a positive record of success in more than half the cases concerning the use by the beneficiaries of the outputs delivered
- Beneficiaries generally used with satisfaction the outputs achieved by climate change and PSD related projects.
- Infrastructure-related (near-) completed projects have achieved results to the extent initially planned in more than half of the cases examined.
- Most examined climate change related projects achieved or are likely to achieve environmental results as planned but quantification of the results achieved is generally scarce. They also often have the potential for wider environmental and socio-economic impact.
- For the two PSD related projects, it is too soon to report on results beyond the use of the outputs made by the beneficiaries because the projects are still ongoing

The measurement of (likely) development results is constrained by the type of reporting carried out (I-9.3.1, I-9.3.2 & I-9.3.3; I-9.6.1, I-9.6.2 & I-9.6.3; I-9.9.1, I-9.9.2 & I-9.9.3). Reporting on outputs and results varies according to projects and IFIs both in terms of quantity and breadth of information provided. Several types of report that enable a follow-up on the progress of projects over time are available for most ongoing and completed projects. The preparation of these reports is either done by the promoter or the lead IFI or outsourced (for EU ROM and final ex-post evaluations). Project progress reports prepared by the promoters generally detail the activities carried out but do not report on outputs or results. EBRD OPA reports provide detailed information at completion stage in a user-friendly format on achieved objectives; EBRD TIMS detail the transition impact reached by the projects. AFD Aide-mémoires provide detailed information throughout the chain of effects in a narrative way. EIB project progress reports provide information against the EIB three pillars (development impact, quality and soundness of the project, EIB contribution) but the information provided is generally scarce on achievements against expected results. Moreover, there was little reporting in terms of (likely) impact in terms of poverty reduction. In addition, reporting on the final beneficiaries actually reached by the projects is particularly scarce.

Sources of information: progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: Strong.

Infrastructure-related (near-) completed projects present in more than half the cases a positive record of success concerning the use by the beneficiaries of the outputs delivered (I-9.3.1, I-9.3.2 & I-9.3.3). Five out of the nine (near-) completed projects (TRANS/MetroRehab/AM #9, TRANS/RoadRehab/MD #29, WASH/SMWP/AM #33, Benin-Togo Power Rehabilitation project LCO component, WASH/LVWATSAN/UG #27-28) present a good picture, though with delays for project #29. TRANS/MetroRehab/AM #9 is qualified as a success story: it resulted in enhanced safety and reliability of the metro service. For TRANS/RoadRehab/MD #29, there are improvements for road users but the project was running significantly behind schedule in achieving its results. WASH/SMWP/AM #33 has rehabilitated infrastructure and improved services for 17 municipalities in Armenia with wastewater treatment in two of them. For the Benin-Togo Power Rehabilitation project LCO component, the national electricity distribution companies perceived positively the improvement brought by the project.

Two of the nine (near-) completed projects (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26) generally present a negative picture concerning achieved outputs and outcomes. For ENER/C.Intercon/NA-ZM #1, the Caprivi Link Interconnector was not fully utilized at the time of the final evaluation. For project TRANS/Corridor/MZ port component #26, there are issues with the maintenance of dredging, which reduces the effective size of ships that are able to berth reliably. Two of the nine (near-) completed projects (ENER/ERERA/REG #3, TRANS/PAPN/CG #42) present a mixed picture with some outputs and outcomes being achieved, but not to the extent initially envisaged. For project ENER/ERERA/REG #3, ERERA could not -as yet- act as per mandate due to the unwillingness of the ECOWAS member states to involve ERERA in regulation activities. TRANS/PAPN/CG #42 boosted the traffic of containers (a 74% increase over the period 2010-2014[165]) but problems exist in terms of transit/access costs with a lot of intervenient in the port (customs, police, municipality, etc.) stifling the traffic.

Sources of information: feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

Beneficiaries generally used with satisfaction the outputs achieved by climate change and PSD related projects. This is the case for five climate change related projects out of six examined (I-9.6.1, I-9.6.2 & I-9.6.3). The population benefits from the local development projects implemented by MASEN in Morocco while the ONEE uses the electricity produced by Noor I (ENER/O.SolarPlant/MA #15). The population of Chisinau uses the trolleybuses (TRANS/PublicTrans/MD #10). The two credit line projects impulsed at bank level a change of mind-set towards the RE-EE market segment: ENER/Env.Credit lines/REG #43-44 led to shifts in strategy and lending policy to embrace new innovative cash flow based lending, while ENER/SEFF/MA-JO #35 encouraged BMCE to start reflecting internally on how to institutionalise the outputs obtained (e.g. through adapting its strategy towards sustainable energy or hiring engineers to ensure technical advice internally). Conversely, for ENER/Ukrenergo/UA #8, the recommendations formulated by the TA team were not as yet taken on board due to the conflict situation in Ukraine. The outputs of the two PSD related projects have been used with satisfaction by the beneficiaries (I-9.9.1, I-9.9.2 & I-9.9.3). With the Georgian Agricultural Finance Facility, the performance of the 3 MFIs benefiting of TA have undergone a very satisfying development. Furthermore, the number of agricultural clients of these MFIs has constantly risen over the course of the programme, from 2012 up to 2014 (IND/SME Facility/REG #12). The field visits in Georgia and Moldova show that EFSE's end beneficiaries have mentioned during the field visit that they made investments in energy efficiency equipment (Moldova) and in better business conditions (Georgia) thanks to the loans received from partner financial institutions (BANK/EFSE/MC #36).

Sources of information: feasibility studies; progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

Infrastructure-related (near-) completed projects have achieved results to the extent initially planned in more than half of the cases examined (I-9.3.4 & I-9.3.5).

Five out of the nine (near-) completed projects (TRANS/MetroRehab/AM #9, WASH/SMWP/AM #33, TRANS/RoadRehab/MD #29, Benin-Togo Power Rehabilitation project LCO Component, WASH/LVWATSAN/UG #27-28) have had positive economic and

[165] Other factors such as the development of the transshipment can explain this increase.

environmental effects. TRANS/MetroRehab/AM #9 contributed to the rehabilitation of the Yerevan metro, with a focus on immediate emergency repairs. It has resulted in energy savings and introduced greater elements of consumer orientation and commercialisation in public utilities. WASH/SMWP/AM #33 has had positive environmental and economic effects. The wastewater treatment plants are reducing the pollution in the river but secondary use of sludge from the mechanical treatment is not yet systematic. On economic effects, the project, although not taking a leading role, has contributed to consolidating a market delivery approach in the sector. It also introduced greater elements of consumer orientation and commercialisation in public utilities. TRANS/RoadRehab/MD #29 has had positive effects though running significantly behind schedule in achieving its results. The project reduced road user costs through the rehabilitation of particular sections of roads. It also has had a range of environmental effects (landslide stabilization, less specific air pollution, less fuel consuming, decreased risk of soil pollution, care of green plantations along the roads). Finally, it offered better road safety conditions. Benin-Togo Power Rehabilitation project LCO Component introduced better services in the electricity supply with less electricity cut offs. WASH/LVWATSAN/UG #27-28 introduced a full 'supply chain' approach to water provision to households in Kampala. 21 urban zones within greater Kampala (including poor low income areas) now have access to water.

Sources of information: progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

The other projects have a mixed record of success (ENER/ERERA/REG #3, TRANS/PAPN/CG #42) or have not met the initially envisaged results ENER/C.Intercon/NA-ZM (#1, TRANS/Corridor/MZ #26). ENER/ERERA/REG #3 has had limited development results so far, since there is currently no strong regional regulation activity in West Africa. TRANS/PAPN/CG #42 has had positive effects on the traffic of containers but negative ones on the businesses not related to containers (about 10% of port's activities). Besides, a significant pollution issue occurred during project implementation, to which IFIs have been particularly attentive (a decontamination pool has been built to overcome this pollution issue). For project ENER/C.Intercon/NA-ZM #1, affordability of electric power did not improve as a result of the project. Besides, energy independence from South Africa was not achieved as planned due to insufficient imports, especially of renewable energy from Zambia, which also resulted in underutilization of the Caprivi-Link Interconnector. This project, which ultimately aimed at alleviating poverty, presents a limited impact on economic and social development, on the improvement in living conditions, and on access to electricity in the rural areas. For TRANS/Corridor/MZ #26 (port component), the traffic of the port of Beira increased by three times between 2010 and 2013, but maintenance was insufficient and putting at risks the sustainability of the achievements. For TRANS/Corridor/MZ #26 (rail component), project development objectives (i.e. improved rail system to support economic growth through regional integration and connectivity of areas along the Zambezi valley to the Port of Beira) were not achieved.

Several of the ongoing projects have a good potential in terms of development results. ENER/PowerTrans/EG #31 has economic and environmental benefits: in the case of the Abu Ghaleb sub-station, the farming community now uses electricity instead of diesel generators to power the irrigation pumps. This has enabled more valuable crops such as bananas to be grown. WASH/PNA-ONEP/MA #30 will lead to an overall improvement of access to sanitation services for the population throughout Morocco. So far, three centres are in exploitation (out of the 25-30 planned). In those three centres, the rate of connection to the sanitation system drastically

improved (from 24% to 95% in Ben Taieb, from 0% to 98% in Boudnib and from 75% to 98% in Tan-Tan).

Sources of information: progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

Most examined climate change related projects achieved or are likely to achieve environmental results as planned but quantification of the results achieved is generally scarce (I-9.6.4 & I-9.6.5). Five out of the six examined climate change related projects have a good potential to achieve intended results concerning greenhouse gas emission reduction. Three of them (ENER/O.SolarPlant/MA #15, ENER/SEFF/MA-JO #35, TRANS/PublicTrans/MD #10) quantified at design stage the expected reduction of CO2 emissions (see below table). One project (ENER/Ukrenergo/UA #8) has not achieved its results and is therefore unlikely to lead to intended environmental benefits. One should also note that three additional projects that are part of our 46 desk sampled projects have defined quantitative targets to be reached concerning greenhouse gas emission reduction.

Table 39 - (Likely) climate change results (to be) achieved by blending projects

Project	Climate change focus at design stage with quantified targets?	(Likely) results (to be) achieved as planned?
#10	Yes - Supporting the City in financing the investment of up to 90 trolleybuses instead of the same number of diesel buses will result in energy savings of 40.8 GJ per annum. CO2 emissions will be reduced by approx. 30 000 tones per year.	Good potential – The target of reducing by 20% energy consumption was not achieved during the 2014 TIMS review but the reduction of the number of minibuses in the municipality has improved the traffic and the ecological situation in the city
#32 (ongoing)	No - The project design aimed to avoid the generation of CO2 emissions by providing electricity from renewable energy sources, but it did not include quantitative benchmarks	Good potential – it led to lower carbon emissions and the use of clean fuel, but project key performance indicators do not explicitly measure amount of offset carbon emissions.
#43/44 (ongoing)	No - Expected environmental results have not been quantified in the design documentation	Good potential – It led to switch to RE and energy savings (EE) among the beneficiaries targeted at design stage
#15 (ongoing)	Yes - It is expected that the 500 MW Ouarzazate Program (Noor I, II, III) will avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) by producing renewable electricity	Good potential (so far only Noor I is constructed and in operation, and works are ongoing for Noor 2 and 3 until the second semester of 2017)
#35 (ongoing)	Yes - In promoting energy efficiency and renewable energy investments, MorSEFF will contribute to reduce greenhouse gas emissions. The target of 150,000 ton CO2/annum was set for both Morocco and Jordan.	Good potential – the programme is running well in Morocco while it has not yet started in Jordan
#8 (closed)	Yes - The full corporatization of Ukrenergo was a key covenant of EBRD/EIB parallel loans 'Rivne-Kyiv High Voltage Line Construction Project' which was expected to contribute to the reduction of greenhouse gas emission reductions (2.3 mln tonnes of CO2 per year)	No - The full corporatization was not yet completed in July 2015

Some of the climate change related projects also have the potential for wider socio-economic impact (I-9.6.4 & I-9.6.5) For project #10 (closed), improvements regarding the urban and regulatory framework for urban transport are mixed: the revised transport strategy is implemented but the e-ticketing system awaited for several years is not yet in place. Project ENER/O.SolarPlant/MA #15 ((near-) completed) had economic effects locally and in Morocco in terms of business generation around renewable energy. It also had social effects on the population of the Ouarzazate region through the implementation of 38 local development projects in education, health, agriculture, infrastructure during the period 2010-2015. Finally, larger effects related to the reduction of Moroccan dependence on imported fossil fuels are expected in the medium term. ENER/SEFF/MA-JO #35 (ongoing) has potential on the economic front since it enables benefiting enterprises to optimise their productivity (through the renewal of equipment) and to reduce their production costs (energy bill). However, the project remains at a rather micro level (with around 50 enterprises having benefited from the first credit line extended to BMCE). Project #43/44 (phase I closed) led to i) net savings in energy bills for SMEs, and ii) and 'first' signings of PPAs with Kenya Power to sell surplus solar energy into the grid.

Sources of information: progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory.

For the two PSD-related projects, it is too soon to report on results beyond the use of the outputs made by the beneficiaries because the projects are still ongoing (I-9.9.4 & I-9.9.5).

JC 9.10 Extent to which blended projects are likely to contribute to job creation in partner countries

Summary: JC 9.10 Extent to which blended projects are likely to contribute to job creation in partner countries

- Blended projects generally did not aim at creating jobs.
- Their (likely) contribution to job creation remained modest during/after implementation.

Blended projects generally did not aim at creating jobs. Job creation was generally not part of the expected objectives to be reached at design stage. Only five out of the 21 projects reviewed (ENER/C.Intercon/NA-ZM #1, IND/SME Facility/REG #12, ENER/O.SolarPlant/MA #15, TRANS/Corridor/MZ #26 and BANK/EFSE/MC #36) aimed to impact positively on the creation of jobs and new businesses. Three of them (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26 and ENER/O.SolarPlant/MA #15) set quantitative targets to be reached in terms of temporary and/or permanent job creation.

Sources of information: project application forms; EU financing agreements
Quality of evidence: Strong

The (likely) contribution of blended projects to job creation remained modest during/after implementation.

For the five above-mentioned projects, employment effects occurred mostly during the construction period and remained modest overall or were not documented. Project ENER/C.Intercon/NA-ZM #1 was expected to create 1000 person-years of employment during construction, hence with no anticipated permanent additional employment effect. Employment effects occurred during the construction phase but are not quantified in the 2015 final project evaluation. They were not maintained afterwards. For Project TRANS/Corridor/MZ #26 Port component, the operation and maintenance of the Sena line was expected to employ about 800 persons of whom roughly half shall be new recruits. EIB progress reports do not report on jobs created. Project ENER/O.SolarPlant/MA #15 expected to create around 3 000 staff years of temporary jobs during construction, and around 90 permanent new jobs for the operation of the project. The field visit shows that effects on job creation have been below expectations with around 2,000 staff employed at the peak of the construction phase and 62 permanent staff to run Noor I. Besides, the project targeted a level of local content of 30% of the plant capital cost to help stimulate private sector and create jobs. This level has been reached. EIB progress reports do not report on job creation for projects IND/SME Facility/REG #12 and BANK/EFSE/MC #36.

In addition, during the field visits, the team could notice that several projects (7 in total: TRANS/PublicTrans/MD #10, WASH/IWSP/EG #14, TRANS/RoadRehab/MD #29, ENER/PowerTrans/EG #31, TRANS/PAPN/CG #42, ENER/Env.Credit lines/REG #43-44, Benin-Togo Power Rehabilitation) led to temporary job creation during the construction phase as well as to permanent job creation. Effects in terms of job creation could not be systematically quantified by the people interviewed. When quantified, they ranged from 5-10 to 300 temporary jobs. Project TRANS/PublicTrans/MD #10 led to the creation of 12 permanent jobs for assembling the buses in Chisinau.

Sources of information: progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners.
Quality of evidence: More than satisfactory

Summary of the Data Collection Process for Evaluation Question 9

Judgement criteria information availability (go to indicator level if needed)	
JC 9.1	4
JC 9.2	4
JC 9.3	4
JC 9.4	4
JC 9.5	4
JC 9.6	4
JC 9.7	4
JC 9.8	4
JC 9.9	3
JC 9.10	3
1= low – 5 = high	

Hypotheses to be tested in the field	**Evidence**
▪ Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	▪ This is partly confirmed in most cases. This is partly confirmed in 6 cases, confirmed in 1 case and not confirmed in 3 cases. Projects were often of good quality though in most cases either lacking risk assessment, being overambitious, or not searching the least cost solution
▪ Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	▪ This is confirmed. In most cases, this was confirmed (4 cases) or partly confirmed (5 cases), with risks not having been sufficiently anticipated
▪ The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	▪ This is partly confirmed in most cases (4 cases) and confirmed in 2 cases. This was not confirmed for 3 cases (Kenya, Moldova, West Africa).
▪ Monitoring of results was uneven across projects and IFIs and often insufficient	▪ This is not confirmed. Regular monitoring took place.

9.4 Indicator analysis

JC 9.1 Blended projects have been designed to enhance access and use of key socio-economic infrastructure

I-9.1.1 Assessment of the reliability of the expected transmission chain from activities until results and impacts

Overall findings:

The review of the selected projects shows:

- The design of blending projects was generally sound: the project description proposed in the agreements usually details the overall objectives pursued, the expected results and the envisaged activities. The full transmission chain from activities until results is clear in the design documentation for 6 out of 12 of the reviewed projects (TRANS/Corridor/MZ #26, WASH/IWSP/EG #14, MULTI/SustDev/CO #19, WASH/PNA-ONEP/MA #30, TRANS/RoadRehab/MD #29, WASH/SMWP/AM #33), but it was often not made explicit

through a logical framework. A full logical framework matrix was prepared for only one project TRANS/Corridor/MZ (#26), and a rather brief one was made for another project (WASH/IWSP/EG #14). Feasibility studies prepared by the IFI involved in the project (WASH/IWSP/EG #14) or by others (WB for #29) or economic cost benefit analysis (TRANS/Corridor/MZ #26; TRANS/MetroRehab/AM #9) also underpinned project design. For the other half of reviewed projects (ENER/C.Intercon/NA-ZM #1; ENER/PowerTrans/EG #31; ENER/ERERA/REG #3; WASH/IWSS/MD #11; TRANS/MetroRehab/AM #9; Benin-Togo Power Rehabilitation), the expected transmission chain from activities to results and impacts is not clearly spelled out in the design documentation; there is no logical framework. However, the design of those projects either (i) rely on detailed feasibility studies (ENER/C.Intercon/NA-ZM #1; TRANS/MetroRehab/AM #9), (ii) respond to a demand of the beneficiaries (e.g. ECOWAS Member States asking for the set-up of a regional regulatory body; TRANS/PortWalvis/NA #4), or (iii) correspond to identified investments as proposed in Master Plans (ENER/PowerTrans/EG #31, Benin-Togo Power Rehabilitation).

- In specific cases, the project design was reported as being overambitious (ENER/C.Intercon/NA-ZM #1) or not being the least cost solution (WASH/SMWP/AM #33)
- Quantifiable targets to monitor progress over time have generally not been defined at design stage. Two projects constitute an exception (TRANS/Corridor/MZ #26 and MULTI/SustDev/CO #19)
- Risks and mitigating measures have often been identified, either in the contract/appraisal report (e.g. TRANS/MetroRehab/AM #9; TRANS/Corridor/MZ #26; ENER/PowerTrans/EG #31) or in the feasibility study (WASH/IWSP/EG #14). In some cases, risk management and control mechanisms were not sufficiently defined to allow for timely corrective action (Projects ENER/C.Intercon/NA-ZM #1 and TRANS/Corridor/MZ #26). For Project #1, the EIB requested the preparation by the promoter of a risk analysis and mitigation measures report as part of the conditions to be fulfilled prior to disbursement. But risk management and control mechanisms were not sufficiently defined to allow for timely corrective action. For Project TRANS/RoadRehab/MD #29, an environmental management plan presenting a mitigating plan with good management and construction practices and a social assessment report have been prepared in 2007/2008.

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The project aims to secure energy supplies for Namibia through the provision of an interconnector between the Namibian, Zambian and Zimbabwean transmission networks. It is co-financed by EIB, AFD and KfW. The EU AITF provided an IRS of €15M. The project description does not detail the expected transmission chain of effects; there is no logframe. Detailed justification is provided for the subsidy. The final evaluation indicates that the 'appraisal was performed in a timely and professional manner'. The three financiers shared similar objectives; the project design is coherent' even though in retrospect project objectives appear to have been too ambitious (objectives on rural electrification, regional integration and well-being of the population). In particular, the merging of the diverse strategies and objectives of the three co-financiers made the global objectives of the project over-ambitious. The intervention logics of the co-financiers strongly overlap and are broadly consistent, especially at results and impacts levels, and show similar targets at output level. But combined the resulted expected outcomes are too ambitious. Besides, the evaluation points that it was already known that the project could not directly influence objectives related to the well-being of the population and the rural electrification (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015). Besides, the EIB requested the preparation by the promoter of a risk analysis and

mitigation measures report as part of the conditions to be fulfilled prior to disbursement (Source: EIB, internal appraisal report, 2008). The evaluation indicates that project risks and key elements relevant to the performance of the project in the future (regional demand, regional trade mechanisms, etc.) were not adequately assessed during the design phase. Risk management and control mechanisms were not sufficiently defined to allow for timely corrective action (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015). The project design is underpinned by a feasibility study done by KfW in 2007/2008.

TRANS/Corridor/MZ #26 (2008-EIB-IRS): the objective of the project is to re-establish the original transport capacity of the port of Beira and of the Sena railway lines forming part of the Beira Corridor Transport System so as to fulfill traffic demands of Sofala, Manica and Tete provinces in Mozambique and of the neighbouring countries Zimbabwe, Malawi, Zambia and Botswana. It consists of two components (Beira port and railway lines), for which the activities are detailed. The rail component complements initial WB financing for the rehabilitation of the Sena and Machipanda rail lines and effectively covers huge cost over-runs that emerged during implementation. The transmission chain from activities to results sounds reliable. Quantifiable targets have been assigned to expected outputs and results so as to monitor progress. Risks and mitigating measures are identified in the design documentation. However, the failure to mitigate problems arising during implementation/construction of infrastructure indicates that risks were not sufficiently well anticipated. The EIB conducted its own economic cost benefit analysis and assessed the financial profitability of the project. In addition, a logical framework matrix detailing for each level of the intervention logic the objectively verifiable indicators, the sources of verification and the assumptions is appended to the ITF application form (Source: EIB, ITF application supporting document, 2008; Interviews in Mozambique).

ENER/ERERA/REG #3 (2008-AFD-TA): La convention de financement de l'AFD détaille le projet en annexe. La chaîne de transmission des activités aux résultats/impacts n'est pas clairement explicitée; il n'y a pas de cadre logique. Le projet vise à établir l'AREEC, qui a pour but d'assurer la régulation des échanges transfrontaliers d'électricité afin d'améliorer la gouvernance et la confiance des acteurs du marché, et par conséquent l'implication du secteur privé. Les activités envisagées ainsi que leur séquence sont présentées. (Source: Convention de financement de l'AFD, 2010). Le projet repose sur une demande des Etats Membres de la CEDEAO de mettre en place un Organe de Régulation Régional (ORR).

Benin-Togo Power Rehabilitation project LCO component (2009-EIB-IRS): although not explicit in project design documents, the transmission chain is sound overall, in the sense that increased access to electrical energy in particular in rural areas is known to contribute to poverty reduction. However, the question of tariffs, beyond the direct influence of the project, is to be considered carefully in future (Source: project documents and site visits in West Africa).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The expected transmission chain from activities to results and impacts is not clearly spelled out in the design documentation. The project aims to strengthen the Egyptian electricity transmission network with a view to maintain a reliable supply of electricity and to cater to the needs of a growing economy. It aims to connect new wind energy generation facilities to the grid and enable future interconnections to neighbouring country networks, notably to Saudi Arabia and the Gaza Strip. There was little identification of potential effects or impacts beyond the outputs of the project. The project is a multi-component investment programme in the Egyptian 220-500 kV transmission network. Identified investments have been prioritized on a technical basis prior to the completion of the Transmission Network Master Plan (2009) and further confirmed by the Master Plan. The NIF contribution also finances the long-term TA to the Project Implementation Unit. Risks are identified: sustainability risks (tariff

remaining below the economic cost of supply) and implementation risks ('ability of the promoter to implement the project according to the stringent environmental & social and procurement requirements of International Financing Institutions (IFI)'). Mitigation measures are proposed: e.g. setup of a PIU staffed with international experts to ensure an efficient and transparent implementation of the project. But interviews held in Egypt reveal that risk assessment was limited. (Source: EU Financing agreement, 2010; and EIB, Proposal to Board of directors, 2010; Interviews in Egypt).

WASH/IWSP/EG #14 (2008-KfW-Grant): The financing agreement details the full chain from activities until results, and includes a brief logical framework. The overarching objective is to reduce environmental pollution and the risk of health to the population of four governorates. The operation consists in two main components: investment component and capacity development component. The activities are precisely detailed for each component, and logically linked to the expected outputs and results. For the investment component, the FA indicates that envisaged investments in the fields of water supply and wastewater shall be selected on the basis of the Governorate-Based Master Plans (Source: EU financing agreement, 2008). The design of the project was underpinned by a feasibility study. The assessment of risks is detailed in the feasibility study. Two major risks are identified: financial sustainability (with tariffs being too low) and the weakness of the operational capacity of the water sector and water sanitation companies (Source: BCT technology enterprises, feasibility study, 2007)

WASH/IWSS/MD #11 (2009-EBRD-TA): This TA is envisaged to finance a feasibility study for a project that aims to rehabilitate sewage collection system and to improve sewage treatment so as to reduce health risks for the population of Chisinau (Moldova) and to prevent excessive exploitation of natural resources and environment pollution. The agreement defines the expected overall and specific objectives of the project; it details the scope of the work of the feasibility study in listing a range of activities to be conducted, without prioritizing them. There is no logframe. The logical chain from activities until results and impacts is not precisely defined. (Source: EU agreement, 2009).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): le projet vise l'amélioration des conditions sanitaires et la qualité du milieu récepteur via un volet investissement et un volet accompagnement technique. Il couvre près de la moitié du programme d'investissements en assainissement restant à réaliser par l'ONEP jusqu'en 2020 et est donc scindé en deux phases. Les DTA précisent les activités, résultats et objectifs escomptés. (Source: AFD, Project Fiche; and AFD, DTA du Contrat, 2010). La chaîne de transmission des effets apparaît clairement; il n'y a pas de cadre logique. Une étude de faisabilité (2010) sous-tend le projet.

WASH/SMWP/AM #33 (2010-EBRD-Grant): The design documentation identifies the full chain from activities until results without logical framework. But there was little or no identification of potential effects or impacts beyond the outputs of the project. Interviews in Armenia show that the project has tended to support rollout of accepted approaches rather than engage in transformative change: the waste treatment plants follow the technology choice of earlier investments through the World Bank and others. A least cost solution does not seem to have been pursued. The waste treatment plant appears as an expensive solution although the strategy of focusing on high quality mechanical treatment also has merits. Indeed, the works implemented appear to be at an unnecessary high standard e.g. the mechanical treatment is highly automated and all equipment including the truck for sludge removal is very high specification and the new administration and laboratory building is oversized. (Source: Technical and Administrative Provisions, Annex II to the FA; Project Fiche, 2009; Interviews in Armenia).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The overall objective of the blending project is 'to facilitate economic growth and regional integration of Moldova' (Source EU Financing agreement, 2008). The FA defines the overall objective, project purpose, expected results and activities; there is no logframe. The 2011 ROM Mission notes that the results 'are realistic to be achieved', and the 2015 EBRD Operation Performance Assessment qualifies the project's documentation as 'adequate'. The expected transmission chain seems reliable. But timing estimates were slightly optimistic with potential contractors being first time comers to the country. (Source: 2015 EBRD Operation Performance Assessment). The project supports the second phase of the Road Sector Programme Support Project, which involves rehabilitation of roads and institutional strengthening. This joint IFI road rehabilitation programme was led by the WB. EBRD relied on the feasibility studies prepared by the WB. (Source: EBRD, Operation Performance Assessment, 2015). A topographical survey indicated that the existing roads were badly out of shape. The proposed works therefore included very extensive asphalt regulating to restore/provide adequate crossfall and camber to meet both road safety and drainage requirements. (Source: Feasibility report, 2009). The NIF contribution participates exclusively to the rehabilitation of roads, by contributing to one lot of roads to be rehabilitated chosen by the Government. The selection of the segment to be rehabilitated has been made after the signature of the FA: R14 Balti – Sarateni (56 km) has been retained. An economic analysis was conducted during the identification stage (Source: EBRD, Project appraisal report). Risks have not been identified in the design documentation. An environmental management plan presenting a mitigating plan with good management and construction practices and a social assessment report have been prepared in 2007/2008.

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The project consists of two phases. The NIF contribution under review concerns phase I. 'The purpose of Phase I of the project is to finance priority capital investments to renovate the metro system of the City of Yerevan' (Source: EU Financing Agreement, 2010). Activities, expected results and objectives are briefly spelled out in the Financing Agreement; there is no logframe. The transmission chain seems reliable. A feasibility study underpins the project design. A financial/economic analysis as well as a key risks and sensitivity analysis were realized during the appraisal stage. Assumptions are detailed in a specific annex to the Memorandum. (Source: EBRD, Memorandum, 2009).

MULTI/SustDev/CO #19 (2013-AFD-TA): the project aims to foster and enhance investments in Colombian urban areas, through a comprehensive approach fostering economic development and social inclusion. It consists of two components: (i) credit lines (AFD and IDB loans) and (ii) TA and studies to be fully financed by the LAIF contribution. The presentation of the project design is detailed and explicitly shows the transmission chain of effects (even though there is no logframe). It presents in detail the activities envisaged for each component and sub-component; the expected results are made explicit and indicators to follow-up results are defined. The design is sound. (Source: AFD, Annex 1 to the contract, 2013).

I-9.1.2 Examination of the geographical area(s) targeted by blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- The geographical areas targeted by blending projects were characterized by their diversity: specific location (e.g. capital city) within a country, or various sites throughout a country, or regional-level focus with a focus on one country while ensuring the connexion with neighbouring countries.

- Several projects targeted areas of strategic importance. TRANS/MasterPlan/NA-REG #5 targets Namibia as a gateway and transit country for the Southern Africa region. WASH/IWSP/EG #14 targets the Nile Delta, an area of extreme importance to Egypt, where high residential occupancies prevail and agriculture activities are highly intensive. TRANS/RoadRehab/MD #29 deals with the rehabilitation of the Balti to Sarateni Road, which is one of the country's main transport corridor. MULTI/SustDev/CO #19 targets several cities in regions presenting a large social disparity.

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The project covers the Namibian, Zambian and Zimbabwean transmission networks. (Source: ITF Application form).

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The project is located in Mozambique but with impact in Mozambique and neighbouring countries (Malawi, Zimbabwe, Zambia, Botswana and DRC). Beira is the second city of Mozambique. 'The port of Beira acts as a gateway for the Beira corridor, which provides access by road and by rail to the interior of the country as well as to land-locked Zimbabwe, Zambia, Malawi and potentially DR Congo.' 'The rail network in Mozambique consists of three main sub-systems – (i) CFM Norte or Nacala railroad, (ii) CFM Sul or Maputo railroad, and (iii) CFM Centre or Beira railroad.' (Source: EIB, ITF application supporting document, 2008.)

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): Namibia being a gateway and transit country for the Southern Africa region, the project (transport masterplan) serves Namibia and the neighbouring countries, especially the landlocked countries. (Source: EIB, Terms of reference for Integrated Transport Master Plan for Namibia)

ENER/ERERA/REG #3 (2008-AFD-TA): ERERA was established in Accra (Ghana). Its activities cover the energy sector in the West African region. Several operations (investments and regulatory projects) have been ongoing in the region to foster the energetic autonomy of the region over the past 20 years. (Source: AFD, Convention de financement, 2010; AFD HQ interviews). Geographical coverage was relevant in two ways: 1/ the electrical energy issue is high in West Africa, 2/ it was relevant to support regional institutions. (Source: site visits in West Africa).

Benin-Togo Power Rehabilitation project (2009-EIB-IRS): the geographical coverage was relevant, i.e. to support a major backbone project for electricity exchange between those to two countries. (Source: project documents and site visits in West Africa).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The project sub-components are geographically dispersed within Egypt. For instance, the components related to interconnection to Gaza are located in the North-Eastern Sinai Peninsula. (Source: EIB, Proposal to the Board of directors, 2010)

WASH/IWSP/EG #14 (2008-KfW-Grant): The project covers four Governorates in the Nile Delta (Behira, Gharbia, Sharkia, Damietta) with a population of 16.3 million. It targets both urban and rural areas. The feasibility study underlines that the geographical location of these governorates is 'an area of extreme importance to Egypt, where high residential occupancies prevail and agriculture activities are highly intensive, based on irrigation. The irrigation canals and drains need careful protection in order to avoid deterioration of the water streams quality'. Besides, in the Delta, water borne diseases are still a major health hazard. Existing water supply and sanitation facilities as well as the financial situation and technical capabilities of the water companies have been

analysed for each directorate. (Sources: EU financing agreement, 2008 and BCT technology enterprises, feasibility study, 2007).

WASH/IWSS/MD #11 (2009-EBRD-TA): The priority investment programme identified trough the feasibility study financed by the blending TA targets the capital city of Moldova.

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): La convention de financement portrait sur le financement d'investissements sanitaires d'environ 29 centres urbains de taille moyenne (5,000 à 10,000 habitants) faisant partie de la liste de 65 centres du Programme National d'Assainissement. Lors de la mission de suivi en 2014, 23 centres étaient finalement retenus, couvrant 9 des 12 directions régionales du Maroc. (Sources: AFD, Convention de financement, 2010; Aide-mémoire 2014).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The project envisaged the rehabilitation of the Balti to Sarateni Road, which is one of the country's main transport corridor: it is a section of the main road that links Chisinau (capital city) to the industrial and administrative centre of the northern region of the country at Balti. (Source: EBRD Appraisal report; EU financing agreement, 2008).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The project concerns the rehabilitation of the metro of Yerevan (Armenia's capital city). The geographical location is not the subject of a specific assessment. (Source: EBRD, Memorandum, 2009).

MULTI/SustDev/CO #19 (2013-AFD-TA): Project description acknowledges regional disparities in Colombia and aims to greater regional convergence and urban development across the country. 'The largest social disparity is located in the centre of the country as well as in the municipalities or departments located within the Pacific, Amazon and Caribbean regions'. The project targeted different regions of the country. Within Component 2 of the project financed by the LAIF contribution, the sub-component 'preparatory studies for preparation of projects in prioritized areas' focuses on two types of cities and approaches: 'sustainable and competitive cities' focus on intermediary towns while 'emblematic cities' focus on cities considered as priorities by the national government because of their strategic importance for the region or because they lack governance etc. FINDETER (a second-tier institution which does not contract directly with final beneficiaries) is the promoter and beneficiaries will be the local entities and private enterprises interested in improving projects' design and implementation (Sources: AFD, Project Fiche; AFD, Annex 1 to the contract, 2013).

I-9.1.3 & I-9.1.4: Poverty-lens: Final beneficiaries targeted at design stage included poor people & Inclusion of poverty-targeting objectives and actions at design stage

Overall findings:

In principle, all blending operations should contribute to poverty reduction. The intervention logic of blending shows that all blending facilities ultimately aim at poverty reduction. However, the emphasis put on poverty reduction varies across the blending facilities: some facilities aim to directly address poverty reduction (e.g. ITF), others are rather focused on regional integration (e.g. LAIF, CIF, IFP), and others on environment, climate change, social change and SME growth (AIF, IFCA, NIF). In the case of the NIF, the overarching objective is peace, prosperity - stability and security of the EU and Neighbouring countries.

Until 2014, the information required at project approval stage differed across the types of application forms (i.e. ITF, NIF) and the emphasis on poverty reduction was quasi null. The project fiches of LAIF and ITF projects did not include any poverty-related criterion/indicator. On the contrary, the Annex to the Project Fiche of NIF projects approved in 2008 includes one pro-poor criterion ('promoting sustainable socio-economic development, with a particular focus on pro-poor growth') but this attention is often not present in subsequent NIF projects.

The EUBEC platform proposed in December 2013 an improved and harmonised Grant Application Form (AF) and accompanying Guidelines. These new tools 'aim at ensuring a more rigorous, transparent and effective project selection process' (Source: EUBEC platform, Report by TG3 to the policy group, December 2013). The 2014 and 2016 Application Form include one indicator to measure outcomes that is explicitly linked to poverty reduction ('the number of beneficiaries living below the poverty line') and one requirement linked to poverty reduction in the check list 'the project demonstrates clear expected direct or indirect poverty alleviation impact'. The 2014 Guidelines to the Application Form details that the proposed cross-sector indicator ('number of beneficiaries living below the poverty line (i.e. whose living conditions are improved by the project') aims to demonstrate the project's contribution to poverty reduction. This indicator applies for EC Instruments whose primary objective is to address poverty (e.g. DCI, EDF) and is encouraged for other projects too. The 2016 Guidelines to the Application Form add that 'some projects are expected to affect poverty indirectly, rather than directly (e.g. investments to improve ports / airports). In these circumstances, there should be an assessment of the likely indirect impact on poverty which should be backed up where possible, by evidence.' The 2014 and 2016 Guidelines further specify that 'one key impact expected is on poverty alleviation'. Recognising that measuring impact through specific indicators is difficult due to the time lag between project implementation and impact, the guidelines encourage the IFIs to 'indicate if the project is directly or indirectly promoting substantial social returns or global public goods returns and its poverty alleviation impact, plus any cross border impacts of the project.'

A large body of studies shows the positive linkages between public infrastructure investment (in particular transport and water and sanitation) and economic growth and poverty alleviation.

- Studies recognize that public transportation investment can have significant impacts on economic growth, and that growth generally in turn contributes to the alleviation of poverty. The World Bank notes that 'a large number of the empirical studies confirm the strong links between transport and economic output, growth, and general welfare. (...) These studies find that public infrastructure capital (including transport) has a significant, positive effect on economic growth'. It recognizes that transport projects can contribute to poverty reduction either through their indirect impact on economic growth or their direct impact on personal

welfare of the poor. Typically, indirect approaches operate at the level of improving overall mobility, while direct approaches operate at the level of improving basic access for the poor. In most cases, indirect approaches have been used. They assume that transport reduces absolute poverty mainly by increasing economic efficiency - by lowering costs and prices and enhancing opportunities. Yet, most direct poverty-targeted interventions (schools, health clinics, nutrition programs, and social services) depend on transport as a complementary input for their effective delivery. Besides, a small number of projects (mostly rural road and urban public transport projects) also have components that target the transport needs of the poor. (Sources: Economic Development Research Group and Cambridge Systematics, Economic Impact of Public Transportation Investment Transit Cooperative Research Program (TCRP) Project J-11, Task 7, October 2009; World Bank, Colin Gannon, Zhi Liu, Poverty and Transport, 1997)

- Studies also recognize the linkages between water supply and sanitation investments and economic growth and poverty reduction. The Stockholm International Water Institute notes that 'improved water supply and sanitation and water resources management boosts countries' economic growth and contributes greatly to poverty eradication. Among the world's poor countries, those with access to improved water and sanitation services experience greater economic growth. Poor countries with improved access to clean water and sanitation services enjoyed annual average growth of 3.7%. Poor countries with the same per capita income but without improved access had an average annual per capita GDP growth of only 0.1%. (…) Gains from improved water supply and sanitation and water resources management benefit poor people most. (…) The economic benefits are immediate and long-term. Immediate benefits include averted health-related costs, and time savings associated with having water and sanitation facilities closer to home. Time saved due to less illness and closer access to facilities translates into higher productivity and higher school attendance. (…) The public and private investments needed to improve water resources management make country economies more resilient to rainfall variability and maintain eco-system services. It boosts productivity and safe-guards future profits of the agriculture and food sector (crop, fisheries and livestock) (Source: Stockholm International Water Institute, Making Water a Part of Economic Development, no date).
- Studies also highlight the key role of energy as a global commodity and as a cornerstone of socio-economic development. Indeed, in order to fulfill economic development, it is necessary to have access, at affordable prices, to abundant and diverse energy forms, primarily commercial, which feed into the economic grid. Industry and transport, which absorb almost 60% of global energy consumption, mostly rely on commercial energies. Energy also has a privileged place in the construction of a durable human development (Johannesburg Summit on Sustainable Development (2002)). Data analysis (Stern, 2003 and 2011) highlights a strong correlation between per capita energy consumption and development level (measured by GDP per capita). Global access to reliable energy services has a strong potential for positive socio-economic development in particular through the: Creation of new activities and employment; Generation of incomes for landowners; Reduction of rural migration; Use of local resources instead of imports; and Knowledge acquired by the technicians and managers of installations. (Source: European Commission, MedPro, The relationship between energy and socio-economic development in the Southern and Eastern Mediterranean, 2013). A study also recognizes that 'the macroeconomic effects of deep climate change mitigation seem likely to be substantially positive for GDP and wellbeing for most developing countries and economies in transition, such as Russia'. (Source: University of Cambridge and Cambridge Econometrics, Terry Barker, Briefing paper: 'The Macroeconomic Effects of the Transition to a Low-Carbon Economy, 2008')

The review of the portfolio of blending projects shows that:

- The design of the projects often did not document poverty-reducing challenges and the link to poverty reduction was often not explicitly stated. However, the design of three projects out of twelve (WASH/LVWATSAN/UG #27-28; WASH/SMWP/AM #33; MULTI/SustDev/CO #19) had a relatively marked poverty lens.
- Design documentation usually does not refer to final beneficiaries; identified benefits tend to be confined to the physical outputs of the project.
- The water and sanitation projects had a direct poverty alleviation resonance in improving access to water supplies in previously undeserved/badly deserved areas or remote rural areas.
- Six projects have had a clear pro-poor focus related to the targeting of poor geographical areas: WASH/LVWATSAN/UG #27-28 focused on water and sanitation services for the urban poor in the Lake Victoria Basin. WASH/SMWP/AM #33 focused on water and wastewater services for the poorer areas of the country. In Egypt, two projects (WASH/IWSP/EG #14; ENER/PowerTrans/EG #31) that had little over poverty alleviation focus however targeted poor rural areas. WASH/IWSP/EG #14 is implemented in four governorates in Egypt, with two of them presenting a poverty rate of respectively 20% and 28%. ENER/PowerTrans/EG #31 has served greater development goals but included a pro-poor aspect related to the targeting of underserved rural areas. For the ongoing Benin Atlantic power project, the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity. One LAIF project (MULTI/SustDev/CO #19) has an explicit poverty-lens; the LAIF contribution was often used to support the pre-investment phase of projects to be financed in cities presenting a strong poverty rate (e.g. Monteria, Cartagena, Valledupar)
- Two ITF projects (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26) aim at poverty reduction as ultimate objective: they concentrate on macro levels of economic development with an assumed 'trickle down' impact upon poverty.

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): Poverty reduction is the ultimate objective of this ITF project. It targets the population of Namibia, in the Southern African region, as well as the national utilities. The project concentrates on national energy security and macro-economic benefits, assuming a 'trickle down' impact upon poverty. Indeed, at results level, the project aims –amongst others- to guarantee affordable economic access to electric power in Namibia. However, by strategic unlocking of the transmission/generation 'chicken and egg' situation[166], the project also intended to use some generated revenues for rural electrification purposes (with potential impacts upon rural socio-economic benefits). In the design documentation, there is no specific targeting at poor people and there are no specific poverty-related actions. Overall the final evaluation indicates that the project was consistent with the majority of beneficiaries' needs, including with the needs of the final beneficiaries in terms of access to affordable electricity and focus on renewable energy. However, the project partially lacked public support at appraisal stage: it was perceived to be only in the interest of the Namibia's mining sector. (Sources: EIB, ITF application report, 2007; Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015; Interviews in Namibia)

TRANS/Corridor/MZ #26 (2008-EIB-IRS): Poverty alleviation is the ultimate objective of this ITF project. The project concentrates on macro levels of economic development with an assumed 'trickle down' impact upon poverty. 'The project is expected to reduce transport costs in the Beira

[166] Satisfying a demand for power supply requires two major infrastructure investments – generation capacity and distribution. Either is useless without the other

Corridor and thereby facilitate international trade, whilst promoting regional integration and regional and local development, ultimately contributing for poverty alleviation.' The design of the project does not include specific objectives or activities explicitly linked to poverty reduction. The project targets the population of Beira of around 600,000 people. The project design indicates that 'the rail line has the potential to impact positively a population of over 4 million living in the provinces that it crosses (Sofala and Tete plus significant economic influence over Zambezia province)'. There is no specific targeting at poor people. (Source: EIB, ITF application supporting document, 2008.). The field visit shows that the Beira Corridor (rail component) made unrealistic claims regarding contribution to economic development and poverty alleviation, many of which were undelivered. (Source: interviews in Mozambique).

TRANS/MasterPlan/NA-REG #5 (2010-EIB-TA): The project documentation (design documentation and completion reports) does not include any reference to poverty reduction. But a great deal of consideration has been given to how transport services and infrastructure can assist Namibia reach its economic, social and environmental development goals over the coming 20 years.

ENER/ERERA/REG #3 (2008-AFD-TA): The envisaged activities and results of the project are not explicitly linked to poverty reduction. (Sources: AFD, Project fiche; and Convention de financement, 2010).

Benin-Togo Power Rehabilitation project LCO component (2009-EIB-IRS): The project does not target poor people directly, but rather the functioning of an overall electricity market in West Africa. This should benefit the poor provided that subsequent initiatives/project have a pro-poor focus. A key informant however noted that the project was too much driven by internal/top-down considerations and not enough "people-driven", i.e. geared towards meeting most pressing needs of the populations. (Source: project documents and site visits in West Africa).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The beneficiary is the Egyptian Electricity Transmission Company, the national transmission system operator of Egypt established in 2001. It is a fully owned subsidiary of the Egyptian Electricity Holding Company (EEHC), Egypt's state-owned electric utility, established in 2000. The project documentation (design and monitoring documentation) does not include any reference to poverty reduction. The project has served greater development goals but has an additional pro-poor aspect related to the targeting of underserved rural areas. For example, the sub-station in Abu Ghaleb directly benefits underprivileged communities living in the surrounding area by improving their access to electricity, improving the roads leading to the sub-station and providing temporary employment during the construction phases. (Source: Site visits in Egypt)

WASH/IWSP/EG #14 (2008-KfW-Grant): The envisaged activities and results of the project are not explicitly linked to poverty reduction. In the annex 'FIG technical advice and proposal' to the Project Fiche, the last criteria 'promoting sustainable socio-economic development, with a particular focus on pro-poor growth' is ticked. Besides, the feasibility study details the socio-economic conditions of the four governorates targeted by the project. In two of them, poor people represent between 20 and 28% of the population. In the two other, poor people represent around 4% of the population (2004 data). (Source: KfW, Project fiche; EU financing agreement, 2008; and BCT technology enterprises, feasibility study, 2007). The field visit shows that there was little over poverty alleviation focus but intended outcomes were on a more macro level with potential impacts on economic and social development goals. The IWSP project served rural communities directly

that did not have access to reliable water supply and this focus was made possible by the grant component since these areas typically have low rates of return. (Source: Interviews in Egypt).

WASH/IWSS/MD #11 (2009-EBRD-TA): The investment programme (water supply and sewage network) identified by the feasibility study financed by the blending targets the population of Chisinau, the capital of Moldova (approx. 800,000 inhabitants). Poverty is less widespread in the capital than in other parts of the country. In addition, absolute poverty rates decreased in Chisinau from 20% to 4% during the period 2006-2011 (Source: Republic of Moldova, Poverty report 2010-2011, 2012). The project aims to improve the living conditions of the population of Chisinau but there are no specific poverty-targeting objectives or actions. (Source: EU agreement, 2009 and Project fiche).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Le projet ne comporte pas d'activités ni d'objectifs visant explicitement la réduction de la pauvreté. L'étude de faisabilité ne comporte pas de référence à la pauvreté. The centres targeted are part of the list of the 65 selected centres prepared by the ONEE on the basis of eligibility criteria that however only pay indirect attention to social issues (social issues being a sub-component of the ecological criteria). But the PNA promotes territorial balance. Rural centres, which are not as yet covered, should be targeted in the second phase of the programme, hereby following the sequence adopted by the Government. (Source: Interviews in Morocco).

WASH/SMWP/AM #33 (2010-EBRD-Grant): Project design (as per the project fiche) intends to 'benefit lower-income groups, as the Armenian Water and Sewerage Company operates in the poorer areas of the country.' However the TAPs of the financing agreement do no refer to poverty reduction. And the TIMS does not report on poverty-related actions or effects. (Source: Project fiche, 2009; EBRD Memorandum 2011; TAPs to the FA; 2014 EBRD TIMS).

WASH/LVWATSAN/UG #27-28 (2010-KfW-TA & IRS): The project design documentation for the grant component has a pro-poor dimension: it aims to facilitate access to water and sanitation services for the urban poor in the Lake Victoria Basin. The project targeted 21 peri-urban poor 'pockets' of varying sizes[167] (Source: Project fiche, 2010; Application form; Interviews in Uganda).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The envisaged activities and results of the project are not explicitly linked to poverty reduction. In the annex 'FIG technical advice and proposal' to the Project Fiche, the last criteria 'promoting sustainable socio-economic development, with a particular focus on pro-poor growth' is not ticked. Final beneficiaries are not explicitly identified. (Source: EBRD, appraisal report and project fiche; EU financing agreement, 2008; Feasibility study, 2009). The project however beneficiates to all the population (through reduced transport costs, improved access to bigger schools and hospitals, etc.) (Source: Interviews in Moldova).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The envisaged activities and results of the project are not explicitly linked to poverty reduction. (Source: EBRD, Memorandum, 2009). The field visit confirmed that the project had not a strong and compelling pro-poor targeting (Source: Interviews in Armenia).

[167] With a population of 1,189,142 people in Kampala, access to clean and safe water is limited to 65 percent. The remaining 35 percent risk contamination and disease by getting water from highly contaminated sources. Source: http://borgenproject.org/poverty-kampala-uganda/

MULTI/SustDev/CO #19 (2013-AFD-TA): The project has an explicit poverty-lens, with LAIF funding (Component 2) aiming to 'help reducing regional development gaps linked to cities development and poverty reduction'. Activities and indicators to be reached are not explicitly linked to poverty reduction but the LAIF contribution was often used to support the pre-investment phase of projects to be financed in cities presenting a strong poverty rate (e.g. Monteria, Cartagena, Valledupar). (Sources: AFD, project fiche, and AFD, Annex 1 to the Contract, 2013; Interviews in Colombia)

JC 9.2 Infrastructure-related blended projects have been implemented as planned in the design phase

I-9.2.1 & I-9.2.2 Comparison of the actually completed activities with planned activities & Explanations of deviations (if any) in the implementation of blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- In most cases, blending projects encountered delays in implementation ranging from a few months (MULTI/SustDev/CO #19; WASH/PNA-ONEP/MA #30; Benin-Togo Power Rehabilitation project LCO component; WASH/SMWP/AM #33) to up to 1 (WASH/PNA-ONEP/MA #30) or 2 years (e.g. TRANS/Corridor/MZ #26 Railway component; TRANS/RoadRehab/MD #29; WASH/IWSP/EG #14) due to: slow contractor's mobilization; poor performance of the promoter; technical complexity of the contracts; learning curve the beneficiary had to go through to master the procurement guidelines of the LAIF; changes in management in beneficiary companies; delays with consultant selection and contracting; rushed contracting done under the D+3 requirement resulting in poor designs (WASH/IWSP/EG #14); land issues related to the installation of treatment plants (WASH/PNA-ONEP/MA #30). The deterioration of the political situation in Egypt (2011) (WASH/IWSP/EG #14; ENER/PowerTrans/EG #31) and Ukraine (2013) (OTHER/TA Munic/UA #34) also affected the implementation of the projects. For TRANS/RoadRehab/MD #29, even though activities were significantly delayed and varied in quantity, the works were realised.
- Four of the reviewed projects were implemented as per the design and specifications (ENER/C.Intercon/NA-ZM #1 with a delay of 9 months in project implementation; #3 with most planned activities completed; TRANS/MetroRehab/AM #9 with a 2-month delay; TRANS/Corridor/MZ #26 Port Component).
- In a few cases, project costs remained below budget expectations (ENER/C.Intercon/NA-ZM #1), and additional activities/investments could be financed with the IFI loan (TRANS/Corridor/MZ #26 Port component; TRANS/MetroRehab/AM #9).

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The final evaluation indicates that the project was implemented as per the design and specifications. There has been a delay of 9 months in project implementation, but overall project preparation and implementation went well. Project costs remained below budget expectations. The project involved the construction of a 350kV high voltage direct current bipolar transmission line with a capacity of 300 MW, covering a distance of 970 Km in the north of Namibia. It also included the extension of the transmission line between Gerus and Auas. The CLI has been in operation since October 2010 and is operated by NamPower, the national utility of Namibia. (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015.)

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The project included two components. The EIB progress reports do not report against each activity envisaged in the logical framework. For the port component, CFM ('Mozambique Ports and Railways') was the implementing agency. The 2014 project progress report notes that this component, as described in the Technical Description of the Finance Contract, was considered completed as of July 2011 (i.e. after 11 months). Additional activities (expected to be completed by the middle of 2015) for associated further minor port improvements could be financed with the EIB loan because the final dredging works contract value was slightly reduced from the original planned value due to better than expected fuel prices. For the railway component, the rehabilitation works were implemented through CCFB (the concessionaire). The 2014 project progress report notes that implementation has been delayed by two years. This was confirmed by the site visit. Implementation has first been delayed by 1 year following the low quality by CCFB of the implementation overall implementation. When the Government terminated the concession, a termination notice has been unilaterally issued, and the termination process took one year from first intention notice to final handover of assets. 'Following the termination of the Concession, the EIB reactivated the loan with CFM as new implementing agency. 'Passenger service is being assured, as well as various freight products, but mainly coal transport'. Following GoM's demand, the remaining balance under the loan has been used to finance ten new locomotives. The EIB requested the cancellation of around 11M€ (out of the 17.3M€ IRS from the EU-AITF) (Source: 2014 EIB Project progress report; Interviews in Mozambique).

TRANS/PortWalvis/NA #4 (2009-KfW-TA): NA. EU funds had been made available for project preparatory works, including an 'economic market study and financial feasibility'. These preparatory works have been fully completed. They conclude that the development of the new container Terminal in Walvis Bay is financially and economically viable and provides benefits for both Namibia and the region. They propose two alternative options for the terminal: a public sector sponsored project or a full concession with concession fee payment. KfW representatives indicated that the related investment measure could never be started since the Namibian Government had decided to procure investment financing from non-EU donors on short notice. (Source: Strategic expansion of the Walvis Bay Container Terminal, Economic market study and financial feasibility, 2012 and interviews with KfW)

TRANS/PAPN/CG #41-42 (2009-AFD-TA and IRS): the site visit in Congo shows that:

- The project went well in terms of infrastructures, except the pollution problem which has required the construction of a decontamination pool. The IFI loan on which the IRS is linked has been totally disbursed. The extension of the dyke and the construction of the external breakwater were completed in August 2013, the water works were completed in September 2013, the extension of quay was completed in April 2014 and the electricity works in May 2014. The dredging conducted to deepen the basin has also been finished. The works undertaken by the concessionaire to expand the handling area are on-going.
- Regarding TA, there are implementation delays because it has taken time to start (procurement procedures, information system problems, etc.). 1.7M€ of the 2M€ were used in February 2016. (Source: Interviews in Congo).

ENER/ERERA/REG #3 (2008-AFD-TA): A range of activities were envisaged around two main groups 1) set-up of ERERA with 19 specific tasks; 2) Organisation and follow-up of the regional market with 16 specific tasks. Detailed reporting on each activity was realised during the period 2009-2013. It shows that in 2013 most planned activities were completed (Source: Rapport général d'exécution ARREC, 2014).

Benin-Togo Power Rehabilitation project LCO component (2009-EIB-IRS): The LCO component («Réhabilitation ligne 161kw Lomé-Cotonou-Onigbolo ») has been completed at roughly 90%-95% although with some delays and minor issues. (Source: project documents and interviews and sites visits conducted in West Africa).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The project design included the design and construction of 10 transmission lines, one underground cable, 10 substations and 22 additional transformers during the period 2010-2014. (Source: EIB, Proposal to the Board of directors, 2010). The project experienced delays: in November 2014, the monitoring mission noted 'the project had not fully started yet', and the completion date had to be extended to 31/12/2017 (the project should initially have closed in 2014). Project implementation status end December 2014 – complemented by information from the field visit made in November 2015 where relevant- was:

- Two substations and one associated underground cable are commissioned (Ashmoon - Abu-Ghaleb- Abu-Ghaleb/Giza North UGC). The field visit in Egypt in November 2015 (Abu Ghaleb) shows that the sub-stations are complete and of a good standard. There is credible operation and maintenance regime in place. The sub-station in Abu Ghaleb was due to begin operations in June 2013 but only came online in November 2013. (Source: site visits in Egypt).
- Three substations under construction (Badr- Samalaut Ext. - Manshiat Nasser).
- Two Substations at contract negotiation stage (Tibbeen Ext. - Suez Gulf).
- Tender documents of one component under preparation (12 x 125MVA Power Transformers).
- Three components not yet started (6th October- Sohag East - Massaed).
- Four components to be proposed for addition to the project (Gamasa- Mostathmreen- El-Zahraa- Cairo North/ Sabtia UGC).'

Furthermore, there is an audit issue regarding documents that have been shredded by the promoter. An audit was requested to analyse the situation.
Source: EIB, Project Progress Report December 2014

WASH/IWSP/EG #14 (2008-KfW-Grant): The project suffered significant delays in implementation, especially with regard to the essential investment component, notably due to the political instability in Egypt. The mid-term review (2014) indicates that 'only 6% of the total allocated IWSP budget for investments' had been disbursed. (…) 'To date only 3 projects are substantially completed whereas the selection of contractors for 43 projects out of a total of 59 phase 1 projects has not even started.' However, 'measures for creating functioning PIUs at the AC level and a PMU at the HCWW have been implemented and are substantial successes for the initiation of decentralised investment processes in the mid and long-term perspective.' (Source: BCT Technology enterprises, Mid-term review, 2014). This was confirmed through the interviews held by the evaluation team in KfW headquarters, which stress in particular the effects of the political instability in the project region on the delays incurred by the programme. At the time of the site visit in November 2015, about 20% of the IWSP I water investments were completed. This is due to a number of reasons including the high level of decentralization in project implementation (five agencies involved in implementation) with all construction and rehabilitation works taking place in the rural Delta governorates and the series of quality challenges (poor designs – with variations and cost increases - and construction as well as heavy cost overruns) which resulted from rushed contracting done under the D+3 requirement. (Source: Interviews in Egypt).

WASH/IWSS/MD #11 (2009-EBRD-TA): The implementation period to realize the feasibility has been extended by 6 months to enable completion of all activities. The feasibility study has been produced in August 2012: it proposes a detailed assessment of the water and wastewater sector and a priority investment programme. (Sources: EU, Addendum n°2; EBRDR-SEURECA, Feasibility study, 2012)

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): the works consist in the rehabilitation and extension of sanitation networks and in the set-up of wastewater treatment plants in 25 urban centres. The project faced important implementation delays (over a year) mostly owing to land issues (land for the construction of the plant). Construction works are finalised in 4 centres and ongoing in 21 centres. Construction works observed during the site visits are of good quality. This is also confirmed by the site visits conducted under the leadership of the AFD. (Source: Interviews in Morocc and in AFD HQ). Les lots réseau sont avancés à plus de 50% à Ouled Berhil, Immintanout, Bni Drar, Boudnib et Debdou. (Source: Interview at AFD HQ; AFD, Aide-mémoire 2014)

WASH/SMWP/AM #33 (2010-EBRD-Grant): The primary waste water treatment works inspected during the site visit in Armenia are complete and of a good standard. Although there have been delays, cost over runs have been controlled. Since construction 6 months ago no operation and maintenance issues have arisen. (Source: Interviews in Armenia).

OTHER/TA Munic/UA #34 (2008-EBRD-TA): Out of the eight initially envisaged investments in the project fiche, only one has been financed (the Lviv urban transport project). End 2014, six contracts were signed in the areas of public transport and metro extension (3 contracts have been signed for the Dnipropetrovsk Metro Extension; 2 contracts for the Lviv Public Transport Project; and one for the Lviv Road Rehabilitation and Modernisation Programme). Two supporting public transport in Odessa had to be cancelled due to financial and legal difficulties in relation to the Ukrainian Budget Code and the political turbulence in the City associated with the changes in the local City administration. Most projects faced implementation delays associated with: the technical complexity of the contract, the somewhat poor performance of the Consultant, changes in management in beneficiary companies, delays with consultant selection and contracting, and delays with the budget funds appropriations. The deterioration of the political and economic situation in Ukraine since December 2013 affected the implementation of the projects. This resulted in an extension of the last availability date for loan financing to ensure sufficient time for the project implementation, and extension of the consultancy contract (Sources: NIF progress reports n°3 and n°5).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): Project completion was delayed by more than 2 years due to slow contractor's mobilization (the implementation of construction works phase started in the beginning of 2012, more than one year after the tender announcement), and to the damage to the exposed regulating layer during winter months of 2012/2013 that had to be fixed. The EBRD notes, in its 2015 Operation Performance Assessment report, 'the works consisted of re-establishment of adequate drainage, road signs and markings, localized repairs and the application of a levelling course of asphalt concrete'. These activities were indeed the ones planned in the initial design. The cost is expected to be in budget (final costs to be known with the final evaluation). The EU ROM report noted variations in work quantities and scope of repairs during project implementation. Scope of repairs on bridges was bigger than initially planned (+15% due to price adjustment). Variations were also expected for work quantities related to repairs of the existing pavement and milling works. The EUD approved in December 2011 a 3 MEUR extension of the scope of the works (within the €12m NIF envelope) by adding an additional 5 km section south Road R14. (Source: EU ROM report, 2013).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The project has been implemented as planned and under budget, with one component (track improvements) to be completed by the first quarter of 2013, hence leading to a 2-month delay (Sources: EBRD, OPA report and 2013 EU ROM report; Interviews in Armenia). The OPA report further specifies that savings for Euros 2.1

million were realized for the initially planned components to be financed. The financiers agreed to utilize the savings for additional investments (i.e. for modernization of metro cars to increase passenger comfort). (Source: EBRD, OPA report). The 2013 EU ROM reports notes that 'a new maintenance train, 60 new bogies, a new truck and backhoe loader, railway track materials and maintenance tools have been procured. 34.6 km of new power cables, 17 new rectifiers and 76 new borehole water and sewerage pumps have been installed, and 8 metro cars refurbished and modernized. The only works remaining is the installation of new track materials which is expected to be completed by September 2013.'

MULTI/SustDev/CO #19 (2013-AFD-TA): Some delays were encountered in the starting phase, with the identification of the projects taking longer than expected (Source: Informe annual FINDETER 2014). FINDETER had to go through a steep learning curve to master the procurement guidelines of the LAIF. End 2015, 42% of the LAIF funds have been disbursed in two tranches (Dec. 2014 and Oct. 2015). 88% of the funds of the first tranche and 14% of the second tranche were contracted. (Sources: Informe annual FINDETER 2015; AFD, Project fiche; AFD HQ Interviews; Interviews in Colombia).

I-9.2.3 & I-9.2.4 Comparison of the actually completed outputs with planned outputs & Review of other contributing factors to observed outputs

Overall findings:

The review of the portfolio of blending projects shows that:

- Planned outputs were achieved in most cases examined (ENER/C.Intercon/NA-ZM #1, ENER/ERERA/REG #3, TRANS/MetroRehab/AM #9, TRANS/Corridor/MZ #26, WASH/LVWATSAN/UG #27-28, TRANS/RoadRehab/MD #29, TRANS/PAPN/CG #42, WASH/SMWP/AM #33, Benin-Togo Power Rehabilitation project LCO component – and WASH/IWSS/MD #11 but this only concerns a feasibility study-)
- A few projects are still ongoing, with part of the outputs being completed (WASH/PNA-ONEP/MA #30; MULTI/SustDev/CO #19; projects WASH/IWSP/EG #14 and ENER/PowerTrans/EG #31 in Egypt due to the complex political situation).

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): Planned outputs have been completed. The CLI has been in operation since October 2010 and is operated by NamPower, the national utility of Namibia (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015).

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The EIB progress reports do not report against the quantitative benchmarks set in the logical framework. For the port component, the 2013 Project progress report notes that 'at the end of the project, a total of 9,468,412 m^3 had been dredged, including paid over-dredging, as compared to the contracts estimate of 7,919,000 m3'. (Source: EIB Project Progress report, 2013). For the rail component, in 2011 less than 1/3 of the anticipated traffic was being carried for the Sena rail line whilst the condition of the Machipanda rail line was worse than when the project started. Most international traffic still uses rail transport to Durban instead of the shorter route through Mozambique. Institutional strengthening was not well articulated and had no significant effect upon CFM institutional capacity to manage public-private partnerships and has not enhanced GOM/CFM ability as a savvy public sector client. (Source: Interviews in Mozambique). The rail component suffered 'a failure in the WB system for monitoring progress and taking appropriate action'. (Source: ICR 2154, WB, June 2012).

TRANS/PAPN/CG #41-42 (2009-AFD-TA and IRS): the site visit shows that operational costs (cost of handling) decreased due to improved infrastructures. The project boosted the traffic of containers: from 356 085 Twenty-foot Equivalent Unit containers in 2010 to 619 692 in 2014, or a 74% increase over the period 2010-201[168]). However, problems exist in terms of transit/access costs: there are a lot of intervenient in the port (customs, police, municipality, etc.) that stifle the traffic. The port is assisted (through a support funded by the lead IFI) to reduce these costs. (Source: Interviews in Congo).

ENER/ERERA/REG #3 (2008-AFD-TA): Interviews conducted and progress reports indicate that the project successfully delivered its outputs: the agency was established and many regulatory activities carried out: e.g. assistance to Senegal river basin organisations (which has a power plant) to improve electricity exchanges; ECOWAS directive to have a legal framework on electricity exchanges. (Source: AFD HQ interviews and Rapport général d'exécution ARREC, 2014)

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): With the delays experienced by the project, end 2014 only a few components had been commissioned or were under construction (Source: EIB Project progress reports 2013 and 2014). The site visit in November 2015 shows that the works of the Abu Ghaleb sub-station are complete. The sub-station has served to connect a large 2500 KW gas turbine power plant to the national grid and via 3 sub-sub stations has extended electricity to new consumers.

WASH/IWSP/EG #14 (2008-KfW-Grant): The mid-term review (2014) indicates that 'almost three years after the start of the programme, the IWSP I has by far not reached the expected investment targets. The significant delay of achievements was mainly influenced by the periodically instable situation in Egypt since the beginning of 2011 and various programme related internal shortfalls on the level of the TA Consultants, the necessary frequent restructuring of the PIUs and the PMU and prolonged tendering and decision making procedures on the level of the Affiliated Companies and the HCWW.' (Source: BCT Technology enterprises, Mid-term review, 2014). This was confirmed through the interviews held by the evaluation team in KfW headquarters which stress the effects of the political instability in the project region on the delays incurred by the programme. Besides, the feasibility study stresses that most past problems to the water sector reform in Egypt lied outside the sector, notably in a lack of political commitment to sufficient tariff increases, appropriate staffing policies, and effective investment and management reforms. (Source: BCT technology enterprises, feasibility study, 2007). The site visit in Egypt to the Husseiniya water treatment plant shows that the refurbishment of the plant has increased water quality but not quantity. TA as a percentage of the total project cost was important but only led to limited technology transfer/capacity building. (Source: Interviews in Egypt).

WASH/IWSS/MD #11 (2009-EBRD-TA): the feasibility study includes a Priority Investment Programme that lead to a new investment project with the Water company, financed by EBRD and EIB loans (each of EUR24 million) and a EUR 13.4 million NIF grant. In the frame of the project, several operating tools were produced and trainings delivered, which probably led to institutional strengthening (Source: Final report, 2012; interviews in Moldova).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): Le projet est en cours. Les travaux (réseaux et stations d'épuration) sont finalisés dans 4 centres à ce stade et la station d'épuration est en opération dans 3 centres (Boudnib, Ben Taïeb and TanTan) (sur les 25 envisagés) (voir ci-dessus sous les indicateurs relatifs aux activités). (Source: Interviews au Maroc).

168 Other factors such as the development of the transshipment can explain this increase.

WASH/LVWATSAN/UG #27-28 (2010-KfW-TA & IRS): Project outputs include: a) rehabilitating and expanding the water distribution system b) including around 21 poor urban 'pockets' of varying sizes[169] c) improving sanitation standards d) managing water catchment areas, and e) monitoring and safeguarding water quality in lake Victoria (Source: Interviews in Uganda).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The 2013 EU ROM Mission report indicates that the project is likely to reach its intended output, i.e. the rehabilitation (Source: EU ROM report, 2013). The EBRD 2015 Operation Performance Assessment Report confirms that the section of the road has been rehabilitated and indicates that 'on the surface the road is good'. In total, 21.19 km of the designated section of the road were rehabilitated with the NIF grant. (Source: Interviews in Moldova).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The expected output (improved operational safety and comfort of the metro line) is achieved. The 2013 EU ROM report notes 'there is reduced levels of water in the tunnels because pumping is undertaken, travel is more comfortable and less noisy, maintenance is done more efficiently, electricity costs are lower and safety hazards are less for both commuters and metro workers'. Whilst it was not possible to physically inspect much of the works in the tunnels themselves during the site visit in Armenia, the metro company and the mayor office are fully satisfied. The quality of the designs, construction supervision and construction management consultants and the outcome of the ROM monitoring missions also point to a successful completion of the high priority rehabilitation works. (Source: Interviews in Armenia).

MULTI/SustDev/CO #19 (2013-AFD-TA): At the time of the field mission, a range of projects had been implemented and was in execution around the three components of the project. Projects concerned (i) TA to develop FINDETER's support to the municipalities, (ii) the financing of pre-investment studies for various municipalities, and (iii) knowledge dissemination activities. TA support and the feasibility studies carried out were generally appreciated. So far, no actual investment/works have been carried out further to the feasibility studies. (Sources: Informe annual FINDETER 2015; AFD HQ Interviews; Interviews in Colombia).

JC 9.3 Infrastructure-related blended projects are likely to deliver development results

I-9.3.1 The (final) beneficiaries targeted at design stage have been reached

Beneficiaries that were envisaged at design stage (in the project fiche and in the EU agreement) benefitted from the financial support of the various facilities. Generally, the project documentation on the implementation, monitoring and completion of blending projects does not report on the final beneficiaries reached.

One exception is the Project **WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant):** Sur base de la liste des centres qui devraient être financés par le co-financement européen, à l'horizon 2020, il est attendu que la population des centres du programme sera d'environ 677,000 habitants (soit plus que l'objectif initialement fixé de 570,000 habitants pour 30 centres). (Source: ONEE-DAE, Rapport d'activités couvrant la période Juillet-Décembre 2015).

I-9.3.2 & I-9.3.3 Effective use, by the beneficiaries, of the knowledge and expertise transmitted with blended projects & Effective use, by the beneficiaries (including the

[169] With a population of 1,189,142 people in Kampala, access to clean and safe water is limited to 65 percent. The remaining 35 percent risk contamination and disease by getting water from highly contaminated sources. Source: http://borgenproject.org/poverty-kampala-uganda/ The WATSAN project is beginning to address this issue, but will need several phases to fully address the growing problem.

poorest communities), of the outputs achieved (i.e. better infrastructure) with blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- Reporting on outputs and results varies according to projects and IFIs both in terms of quantity and breadth of information provided. Reports enabling to follow-up the progress of projects over time are available for most ongoing and completed projects, be they project progress reports, monitoring reports, completion and/or evaluation reports. These reports are either prepared by the promoter, the lead IFI or outsourced (for EU ROM and final ex-post evaluations). Project progress reports prepared by the promoters generally detail the activities carried out but do not report on outputs or results. EBRD OPA reports provide detailed information at completion stage in a user-friendly format on achieved objectives; EBRD TIMS detail the transition impact reached by the projects. AFD Aide-mémoires provide detailed information throughout the chain of effects in a narrative way. EIB project progress reports provide information against the EIB three pillars (development impact, quality and soundness of the project, EIB contribution) but the information provided is generally scarce on achievements against indented results.
- Six (ENER/C.Intercon/NA-ZM #1, ENER/ERERA/REG #3, TRANS/MetroRehab/AM #9, TRANS/Corridor/MZ #26, TRANS/RoadRehab/MD #29, TRANS/PAPN/CG #42) out of the 13 examined blending projects are completed, three are near completion (WASH/LVWATSAN/UG #27-28, WASH/SMWP/AM #33, Benin-Togo Power Rehabilitation project LCO component) and four (WASH/IWSP/EG #14, MULTI/SustDev/CO #19, WASH/PNA-ONEP/MA #30, ENER/PowerTrans/EG #31) are still ongoing with end dates between 2017 and 2021.
  - Five out of the nine (near-) completed projects (TRANS/MetroRehab/AM #9, TRANS/RoadRehab/MD #29, WASH/SMWP/AM #33, Benin-Togo Power Rehabilitation, WASH/LVWATSAN/UG #27-28) present a good picture, though with delays for project #29. Project #9 is a success story: the project achieved its objectives: it resulted in enhanced safety and reliability of the metro service. For project #29, there are improvements for road users but the project was running significantly behind schedule in achieving its results. Project #33 has rehabilitated infrastructure and improved services for 17 municipalities in Armenia with wastewater treatment in two of them. For Benin-Togo Power Rehabilitation project LCO component, the national electricity distribution companies perceived positively the improvement brought by the project.
  - Two of the nine (near-) completed projects (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26) generally present a negative picture concerning achieved outputs and outcomes, For instance, for project #1, the Caprivi Link Interconnector (CLI) was not fully utilized at the time of the final evaluation. Besides, the increase in electricity tariffs constituted an important disincentive to rural electrification. There is no evidence that tariff increases over the last years are directly connected with NamPower's investment in the CLI, but full utilization of the CLI's capacity would have increased NamPower's financial position considerably. For project #26 (port component), there are issues with the maintenance of dredging, which reduces the effective size of ships that are able to berth reliably.
  - Two of the nine (near-) completed projects (ENER/ERERA/REG #3, TRANS/PAPN/CG #42) present a mixed picture with some outputs and outcomes being achieved, but not to the extent initially envisaged. For project #3, ERERA could not -as yet- act as per mandate due to the unwillingness of ECOWAS member states to involve ERERA in regulation activities. Project #42 boosted the traffic of containers (a

74% increase over the period 2010-2014[170]) but problems exist in terms of transit/access costs with a lot of intervenient in the port (customs, police, municipality, etc.) stifling the traffic.

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): Over the years, there has been a drastic increase in average tariffs by NamPower (12% in 2012 and 25% in 2013), which raised the issue of affordability of electricity supply, particularly among the low-income households in rural areas. Increases in monthly electricity bills were not accompanied by commensurate increases in household incomes, particularly in rural areas. In fact, increase in tariffs was an important disincentive to rural electrification. But there is no evidence that tariff increases over the last years are directly connected with NamPower's investment in the CLI, but full utilization of the CLI's capacity would have increased NamPower's financial position considerably. (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015).

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The EIB progress reports do not report against the quantitative benchmarks set in the logical framework. For the port component, the 2014 Project progress report notes that 'the port is facing some difficulties with the depth in the Macuti Channel in places reducing the effective size of ships that are able to berth reliably there below the 50,000 dwt threshold originally envisaged for the capital dredging, part EIB funded. CFM informed that after delay, the new, DANIDA financed, dredger was currently being commissioned in Beira port and would be available for maintenance dredging in the coming weeks once a maintenance agreement was agreed with EMODRAGA.' For the railway component, as noted above, following the termination of the Concession, CFM took the line over. Passenger service is being assured, as well as various freight products, but mainly coal transport'. (Source: 2014 EIB Project progress report).

ENER/ERERA/REG #3 (2008-AFD-TA): Interviews conducted indicate that whilst outputs were achieved, the project was not so successful because ERERA could not –as yet- act as per mandate due to the unwillingness of ECOWAS member states to effectively increase regulation at the regional level and in their own countries through involvement of ERERA. (Source: AFD HQ interviews). A national regulation authority met by the team (in Togo) appreciated the training given by ERERA to national regulation authorities in various fields of regulation. (Source: sites visits conducted in West Africa).

Benin-Togo Power Rehabilitation project LCO component (2009-EIB-IRS): Direct beneficiaries are mainly the national electricity distribution companies – they perceived positively the improvement brought by this project (rehabilitation works). Operation teams have been trained to operate new type of equipment. (Source: project documents and interviews and sites visits conducted in West Africa).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): Project progress reports do not report on the knowledge/expertise transmitted by the TA (Source: EIB Project progress reports 2013 and 2014). The investments examined in the field (Abu Ghaleb sub-station) have been providing the expected improvements in terms of access to electricity, with electricity being extended to new consumers and the reliability and hours of service to existing consumers being improved. Moreover, the number of complaints about electricity quality have almost disappeared since the completion of the sub-station. Electricity fluctuations would lead to malfunctions and a shortened

[170] Other factors such as the development of the transshipment can explain this increase.

lifespan of equipment in the adjacent farms. However, interviews with electricity users and famers show a mixed level of satisfaction. Although savings in pumping costs and access to close to 24 hour service is acknowledged, a dissatisfaction with government services was noted and there was a reluctance to accept that the government had done enough. (Source: Site visits in Egypt).

WASH/IWSP/EG #14 (2008-KfW-Grant): The field visit in Egypt shows that much of the land used for the IWSP was paid for by local residents or donated, which is a strong indication of the project's value to the community. However project outputs have been below expectations so far (delays; water quantity not improved; quality issues). (Source: Interviews in Egypt).

WASH/IWSS/MD #11 (2009-EBRD-TA): the Priority Investment Program identified by the feasibility study lead to a new investment project with the Water company, financed by EBRD and EIB loans (each of EUR24 million) and a EUR 13.4 million NIF grant. (Source: EBRD HQ interviews and Interviews in Moldova).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): L'exploitation des premiers centres (3 à la date d'Avril 2016) a commencé en 2015. La population de ces centres bénéficie des travaux d'extension du réseau d'assainissement et d'un meilleur traitement des eaux usées (Sources: AFD Aide-mémoire 2014; Entretiens au siège de l'AFD; Entretiens au Maroc).

WASH/SMWP/AM #33 (2010-EBRD-Grant): The site visit in Moldova shows that the project has rehabilitated infrastructure and improved services for 17 municipalities with waste water treatment in two of them. The system is in use as it is connected to an existing sewerage network. There is considerable infiltration from rain and snow melt water arising probably due to historical drainage connections to the sewer network. (Source: Interviews in Armenia).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The 2013 EU ROM mission notes 'there are already noticeable improvements for the road users'. (Source: EU ROM report, 2013). The 2015 EBRD Operation Performance Assessment Report notes that all road sections financed by the joint IFI programme to road rehabilitation produced a very high Economic Internal Rate of Return, which reflect the high traffic levels. The field visit confirmed that the intensity of the traffic (Annual Average Daily Traffic) has increased from 4352 in 2007 to 7170 in 2015. The project has also enhanced the accessibility of neighbourhood localities to markets (including access to labour market) and socio-administrative facilities. An evaluation conducted in 2014 collected the views of the population living in villages along the road: most of them were happy and mentioned a significant improvement of the quality of infrastructures in their village. (Source: Interviews in Moldova)

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): At appraisal stage, the Yerevan metro provided services for more than 18 million passengers annually (Source: EBRD, Memorandum report, 2009). The project achieved its objectives; it resulted in enhanced safety and reliability of the metro service. (Source: EBRD, OPA report). The site visit shows that apart from internal carriage refurbishment, less vibration and noise and the provision of a washing facility of some carriages there is no evident improvement of service. The main effect has been to extend the lifetime of the metro and delay or prevent a sudden failure (Source: survey of beneficiaries and discussion with Metro officials). The 2013 EU ROM report 2013 also notes that 'the target of raising fares by 100% to 100 AMD was met in July 2011. This initially led to a fall in passenger numbers which since have risen by 10%.'

MULTI/SustDev/CO #19 (2013-AFD-TA): TA provided to Findeter / studies prepared within the framework the 'emblematic cities' sub-component of the project were highly appreciated by the beneficiaries. (Source: Interviews in Colombia).

I-9.3.4 & I-9.3.5 Review of the results (or likely results to be) achieved with blended projects and of their potential development impact & Review of other contributing factors to observed/potential development results

Overall findings:

The review of the portfolio of blending projects shows that:

- Five out of the nine (near-) completed projects (#9, 33, 29, 47, 27-28) have had positive effects.
  - Project #9 is a success story. It has resulted in energy savings and introduced greater elements of consumer orientation and commercialisation in public utilities.
  - Project #33 has had positive environmental and economic effects. The wastewater treatment plants are reducing the pollution in the river but secondary use of sludge from the mechanical treatment is not yet systematic. On economic effects, the project, although not taking a leading role, has contributed to consolidating a market delivery approach in the sector. It also introduced greater elements of consumer orientation and commercialisation in public utilities.
  - Project #29 has had positive effects though running significantly behind schedule in achieving its results: economic effects (reduction of transportation costs); environmental effects (landslide stabilization, less specific air pollution, less fuel consuming, decreased risk of soil pollution, care of green plantations along the roads), and better safety conditions.
  - Project #47 introduced better services in the electricity supply with less electricity cut offs.
  - Project (#27-28) introduced a full 'supply chain' approach to water provision to households in Kampala. 21 urban zones within greater Kampala (including poor low income areas) now have access to water.
- Two out of the nine (near-)completed projects have overall not met the initially envisaged results (#1, 26). For project #1, affordability of electric power did not improve as a result of the project. Besides, energy independence from South Africa was not achieved as planned due to insufficient imports, especially of renewable energy from Zambia, which also resulted in under utilization of the Caprivi-Link Interconnector. This project, which ultimately aimed at alleviating poverty, presents a limited impact on economic and social development, on the improvement in living conditions, and on access to electricity in the rural areas. For Project #26 (Port component), the traffic of the port of Beira increased by 3 times between 2010 and 2013. Several factors explain this trend: the growth in coal traffic; higher economic growth and the conduct of more efficient port operations (the latter having been supported by the blending project) but insufficient maintenance puts at risk the sustainability of this progress. For Project #26 (rail component), project development objectives (i.e. improved rail system to support economic growth through regional integration and connectivity of areas along the Zambezi valley to the Port of Beira) were not achieved.
- Two out of the nine (near-) completed projects have not met in full initial envisaged results (# 3, 42). Project #3 has had limited development results so far, since there is currently no strong regional regulation activity in West Africa. Project #42 has had positive effects on the traffic of containers but negative ones on the businesses not related to containers (about 10% of port's activities). Besides, a significant pollution issue occurred during project implementation, to which IFIs have been particularly attentive (a decontamination pool has been built to overcome this pollution issue).

- Several of the ongoing projects have a good potential in terms of development results:
  - Project #31 has economic and environmental benefits: in the case of the Abu Ghaleb sub-station, the farming community now uses electricity instead of diesel generators to power the irrigation pumps. This has enabled more valuable crops such as bananas to be grown.
  - Project #30 will lead to an overall improvement of access to sanitation services for the population throughout Morocco. So far, three centres are in exploitation (out of the 25-30 planned). In those three centres, the rate of connection to the sanitation system drastically improved (from 24% to 95% in Ben Taieb, from 0% to 98% in Boudnib and from 75% to 98% in Tan-Tan).

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): At the time of the final ex-post evaluation (2015), the project objectives were not fully met. The project succeeded in 'increasing the reliability of the access to electricity by establishing a new channel for power imports. Affordability of electric power did not improve as a result of the project. Energy independence from South Africa was not achieved as planned due to insufficient imports, especially of renewable energy from Zambia, which also resulted in under utilization of the Caprivi-Link Interconnector. The objective of network stabilization was fully achieved for both the national grid and the interconnected HV transmission grids in the regional network.' (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015). In terms of impact, the project 'scores high on the control of socio-environmental impacts and risk mitigation, especially during construction'. NamPower designed and implemented appropriate mitigation measures. Weaknesses concern 'the limited impact on economic and social development, on the improvement in living conditions, and on access to electricity in the rural areas'. 'The CLI project has no direct impact on poverty reduction'. 'The indirect impacts on poverty reduction are not measurable or only imprecisely measurable'. 'The CLI has shown no significant measurable impact on tariff affordability in Namibia. NamPower's financial position was significantly impacted by operating losses from the under-utilization of the CLI. The rehabilitation of the Zambian interconnectors and increased regional power trade are expected to have a positive impact on NamPower's financial position in the future. The positive impact of the project on cross-border cooperation remained below expectations'. NamPower's governance is a strong point. Technical sustainability can be considered to be ensured but is uncertain as the line remains to be tested under conditions of full capacity utilization.' (Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015).

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The EIB progress reports do not report against the quantitative results benchmarks set in the logical framework. For the port component, the 2014 Project progress report notes that 'the port was responsible for 10.6 million tons in 2013, up about 3 times from 2010. The increase is in part explained by the growth in coal traffic (3.7 million tons in 2013) but is also a response to more general economic growth and the impact of the capital dredging which has facilitated efficient port operations'. (Source: EIB Project progress report, 2014). For the rail component, project development objectives (i.e. improved rail system to support economic growth through regional integration and connectivity of areas along the Zambezi valley to the Port of Beira) were not achieved. (Source: Interviews in Mozambique).

TRANS/PAPN/CG #41-42 (2009-AFD-TA and IRS): A lot of effort is being done on environmental issues, such as the construction of a decontamination pool to overcome the pollution issue that occurred during project implementation. IFIs (especially EIB) are particularly attentive to this question. The port is envisaging a decrease of its current tariffs (thanks to increases in traffic) and has poverty-related concerns in proposing preferential tariffs for basic

commodities[171]. But the project has had a negative economic effect on the businesses not related to containers, such the traffic of cement, cereals and ship repair (about 10% of port's activities) that have seen their volume of activities decrease because they now have a limited space on the port. (Source: Interviews in Congo).

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): The project experienced delays, so that no results were as yet achieved according to the EIB Project progress reports 2013 and 2014. The site visit in Egypt shows that the project has supported the renewable sector and has also led to substitution from diesel generation to use of cleaner gas turbine generation in the case of the Abu Ghaleb sub-station. (Source: Site visit in Egypt).

- There are tangible benefits to the mainly farming community in that they now use electricity rather than diesel generators to power the irrigation pumps. This has enabled more valuable crops such as bananas to be grown. As a result of the improved electrical supply and the roads constructed to reach the sub-stations, the land price has increased by 5 to 7 fold from the level before the project.
- There are also environmental benefits as the gas driven electricity generation is more efficient, less polluting and emits less carbon than the diesel generators that it replaces.

ENER/ERERA/REG #3 (2008-AFD-TA): Development results are limited so far, in that there is currently no strong regional regulation activity, and that increased regulation capacities at country level have been limited. (Source: Interviews in West Africa and with AFD HQ).

Benin-Togo Power Rehabilitation project LCO component (2009-EIB-IRS): the rehabilitation works introduced better services in the electricity supply with less electricity cut offs. (Source: Interviews in West Africa).

WASH/IWSP/EG #14 (2008-KfW-Grant): The mid-term review (2014) indicates that the status of accomplishment remains much behind expectations and that 'the main objective of the programme, improving the health and hygienic conditions of the target population by means of a substantial increase of water supply and wastewater service coverage ratios, can only be reached if the earmarked investment budget is implemented in a reasonable time span from now.' (Source: BCT Technology enterprises, Mid-term review, 2014). The field visit in Egypt shows that the project has brought environmental benefits: it has directly reduced pollution. But project key performance indicators do not explicitly measure amount of pollution levels. Besides, sustainability is unproven – O&M is vulnerable due to the poor quality of works and the absence of clear budgets as well as the slow progress on tariff reforms. There is however potential for scaling up the water sector investments as the governorate water supply and sanitation companies improve performance and a financially viable tariff is adopted. The IWSP relies on a decentralized institutional set-up for the implementation and oversight of investments. In each target governorate, the local affiliated-company responsible for water and wastewater infrastructure is now involved in tendering, construction supervision and project management. This has laid the groundwork for more decentralized water sector management and can be replicated in other governorates. (Source: Interviews in Egypt).

TRANS/MetroRehab/AM #9 (2010-EBRD-Grant): The expected result (rehabilitation of the metro with a focus on immediate emergency repairs) is achieved. EBRD staff in HQ stress this is a significant success story, with phases 1 and 2 done and phase 3 being under under consideration. Interviews held in Armenia also show that the project has resulted in energy savings and introduced

[171] This was already the case before the project.

greater elements of consumer orientation and commercialisation in public utilities (Source: Interviews in Armenia).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): The period of execution of the project ended in February 2015 (the project was signed in 2008 for an initial period 66 months extended to 74 months). The 2013 EU ROM mission notes that 'the project is running significantly behind schedule in achieving its results'. But it is expected that the rehabilitation of particular sections of main roads will reduce road user costs in the short term. 'Expected impact on facilitating economic growth and regional integration will be significant, especially as this project is aligned with several other donor-contributions to rehabilitate most part of the road connecting Balti, second largest city in the country, to the capital Chisinau'. (Source: EU ROM report, 2013). The 2015 EBRD Performance Assessment Report confirms that 'the project is expected to have wider economic benefits, more difficult to quantify, including regional growth effects and integration benefits related to proximity with the EU.' Interviewees met in the field in Moldova indicated that the project has contributed to the reduction of transportation costs and to positive environment impacts (landslide stabilization, less specific air pollution, less fuel consuming, decreased risk of soil pollution, care of green plantations along the roads), and better safety conditions (leading to decreased risk of car and local residents accidents).

WASH/IWSS/MD #11 (2009-EBRD-TA): NA – this project concerns the production of a feasibility study. (Source: EBRD HQ interviews and interviews in Moldova).

WASH/PNA-ONEP/MA #30 (2010-AFD-TA/Grant): The field visit shows that in the three centres in exploitation the rate of connection to the sanitation system improved from 24% to 95% in Ben Taieb, from 0% to 98% in Boudnib and from 75% to 98% in Tan-Tan. The project -ongoing- will lead to an overall improvement of access to sanitation services for the population throughout the country. The financial sustainability of the supported activities remains a key challenge for the project. The sustainability of sanitation is regularly discussed in the AFD aides-mémoires with the activity being structurally in deficit. Tariff increases have been confirmed for the period 2014-2017 but they remain modest and insufficient to cover operation costs. With rural centres to be targeted in the future within the framework of the Rural National Sanitation Programme, the issue around the financial viability of the activity will also increase (Source: Interviews in Morocco). De plus, la question du démantèlement des installations d'assainissement individuelles, notamment lorsque des nappes phréatiques sont proches de la surface, sera critique. Pour les centres les plus sensibles, des mesures d'atténuation ont été ajoutées. (Source: AFD, Aides-mémoire, 2012, 2013, 2014)

WASH/SMWP/AM #33 (2010-EBRD-Grant): The project overall objective was to improve municipal water supply in the municipalities of Tavush, Lori, Shirak, Gegharkunik, Kotayk, and Vayots Dzor marzes ("provinces") and rehabilitate water treatment plants and sewerage collectors in Tavush and Vayots Dzor marzes. It has environmental and economic effects. On environmental effects, the site visit shows that the waste water treatment plants are reducing the pollution in the rivers. Daily and weekly on site effluent water quality testing against a number of criteria are carried out and clearly documented Although the primary treatment is not achieving the Armenian or lower EU effluent standards there is still a considerable environmental benefit. Monitoring of receiving water quality is not systematically being done or reported to the Ministry of Environment. Secondary use of sludge from the mechanical treatment is not yet systematic although there are reports of small amounts being provided to local farmers as fertiliser. Besides, the project has reduced water losses and associated pumping energy use. On economic effects, the project, although not taking a leading role, has contributed to consolidating a market delivery approach in

the sector. It also introduced greater elements of consumer orientation and commercialisation in public utilities. (Source: Project fiche, Interviews in Armenia)

WASH/LVWATSAN/UG #27-28 (2010-KfW-TA & IRS): The project aimed at an increased coverage, reliability and access of water supply services for the population of metropolitan Kampala for sustainable urban growth. The comprehensive TA and its two in-depth studies (diagnostic and feasibility) introduced a full 'supply chain' approach to water provision to households in Kampala, starting with investments in catching the rain water and catchment area management (forestry and erosion management and other matters), water treatment and quality control (also in Lake Victoria where there are effluent issues), distribution to 21 urban zones within greater Kampala (including poor low income areas) and waste water management and sanitation aspects. Discussions about the replication of the project approach to other towns on the shores of the lake are ongoing (Source: Project fiche, Interviews in Uganda).

MULTI/SustDev/CO #19 (2013-AFD-TA): AFD asked FINDETER to set up a matrix of indicators to follow-up the projects but FINDETER has not been able to do so so far (source: informe annual FINDETER 2014). Reporting on results is weak. Under the 'emblematic cities' sub-component of the project, 62% of the resources mobilized by FINDETER will benefit poor cities: 46% of the resources benefited two cities located near the Caribbean sea (Barranquilla (24%) and Monteria (22%)) and 16% of the resources one city located in the Pacific region near the border with Ecuador (Pasto). The LAIF contribution was used to support the preparation of 4 projects to be financed in cities generally presenting a strong poverty rate. So far, no actual investment/works have been carried out further to the feasibility studies.

Details are as follows:

- Barranquilla (1.2m habitants; poverty rate of 29,1%): 7 projects financed by FINDETER;
- Monteria (436m habitants; poverty rate of 34.8%): 6 projects financed by FINDETER, including one (the 'Restauración del Mercado Central') by LAIF: the feasibility study on the renovation of the market of Monteria has been carried out in April 2015 but there was no clear financing established in February 2016 for the actual renovation of the market.
- Pasto (434m habitants; poverty rate 30%): 6 projects financed by FINDETER;
- Bucaramanga (527m habitants; poverty rate 10%): 3 projects financed by FINDETER, including one (Parque Lineal Quebrada La Iglesia) by LAIF;
- Cartagena (990m habitants; poverty rate of 29%): 3 projects financed by FINDETER, including one (Huella Urbana, Vulnerabilidad, GEI) by LAIF;
- Valledupar (443m habitants; poverty rate: 31%): 2 projects financed by FINDETER, including one (Huella Urbana, Vulnerabilidad, GEI) by LAIF.

(Source: PPT Findeter, 2014; Interviews in Colombia).

JC 9.4 Blended projects have been designed to enhance adaptation and mitigation to climate change

I-9.4.1 Assessment of the reliability of the expected transmission chain from activities until results and impacts

Overall findings:

The team undertook a statistical analysis to determine the degree to which blending projects targeted environmental benefits at design stage (see Volume 2 - Annex 4 - Inventory). It used the OECD/DAC statistical policy markers to monitor external development finance for environmental purposes, and more precisely the two Rio markers covering i) climate change

adaptation and ii) climate change mitigation. The analysis compared blending projects with non-blending projects. It was made for the 13 countries the evaluation team visited during the field visits. It proposes overall, sector and country trends on the basis of the Rio markers provided for each EU contract approved from 2007 to 2014 in these 13 countries. The OECD monitoring system uses a scoring system of three values, in which development co-operation activities are "marked" as targeting the environment or the Rio Conventions as the "*principal*" objective or a "*significant*" objective, or as not targeting the objective. The analysis of the statistical data shows that blending projects targeted more both climate change adaptation and climate change mitigation than non-blending projects at design stage, and that blending projects also put more emphasis on climate mitigation than on climate change adaptation. Indeed, 31% of the blending projects considered climate adaptation as a significant or main objective in comparison to 5% of the non-blending projects, and 55% of the blending projects considered climate mitigation as a significant or main objective compared to 6% of the non-blending projects. The fact that blending projects have been more strongly focused on the energy and transport sectors than non-blending projects could partly explain this difference between blending and non-blending projects. But the statistical analysis shows that even within the same sector (e.g. energy), blending projects targeted more climate change adaptation and climate change mitigation than non-blending projects. Across countries, blending projects systematically put a stronger emphasis on climate mitigation than non-blending projects. There is no such discernable country pattern for climate change adaptation. (Source: Annex 4 – Inventory).

The review of the 46 sampled projects shows that only 15% (or 7 out of 46) of the projects defined quantifiable targets to be reached concerning greenhouse gas emission reduction. They mostly concern the energy sector (ENER/Ukrenergo/UA #8, ENER/O.SolarPlant/MA #15, ENER/Ext.5deNov/SV #17, ENER/PowerUU/GY #22, ENER/SEFF/MA-JO #35), but also water and sanitation (WASH/IWSSI/GY #21) and transport (TRANS/PublicTrans/MD #10). Four of them are part of the climate change related projects that have been reviewed for the assessment of the results obtained through blending (the three others being too recent).

The review of the six blending projects under review shows that:

- The design of blending projects was generally sound. Blending projects generally do not detail the transmission chain from activities to results; there is no logframe. But the project design was underpinned by feasibility studies (ENER/Wind Farm/EG #32, TRANS/PublicTrans/MD #10), environmental and social studies (ENER/O.SolarPlant/MA #15), or detailed economic and financial analyses (ENER/Ukrenergo/UA #8). For ENER/SEFF/MA-JO #35, the transmission chain of effects is detailed in the application form and a feasibility study was conducted. Detailed quantitative and qualitative targets have been proposed for ENER/SEFF/MA-JO #35.
- Risks were generally identified (ENER/O.SolarPlant/MA #15, ENER/Ukrenergo/UA #8, TRANS/PublicTrans/MD #10, ENER/Wind Farm/EG #32, ENER/SEFF/MA-JO #35). For ENER/Wind Farm/EG #32, the feasibility study details the potential technical and market risks, but during project implementation, political risks materialized. The development of the political situation was then subsequently monitored.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): le projet vise à contribuer au développement socio-économique du Maroc tout en respectant l'environnement via le financement d'une centrale solaire. La convention de financement reprend les principales activités ainsi que les résultats et objectifs escomptés du projet. La chaîne de transmission des effets n'est

pas clairement explicitée dans la convention de financement; le document présentant par ailleurs aussi les bien les objectifs du Plan Solaire Marocain (dans lequel le projet s'inscrit) que ceux du projet en tant que tel (Source: UE, Convention de financement, 2011). Les risques sont identifiés dans le 'EIB proposal to the board of directors'. Une étude d'impact environnemental et social a été réalisée dans le cadre de la conception du projet. Selon la mission de suivi de la BEI (Décembre 2013), cette étude conclut que les risques environnementaux et sociaux sont limités et mitigés de façon adéquate. (Sources: UE, Convention de financement, 2011; EIB Project progress report, 2013). Aucune étude de faisabilité n'a été réalisée.

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The objective of the blending TA is to assist UKRENERGO in becoming a corporatized company and operating in a more sustainable manner. Project design documentation indicates that this TA is key to EBRD/EIB parallel loans 'Rivne-Kyiv High Voltage Line Construction Project' and 'Ajalyk-Usatovo 330 kV Line Construction Project'. These projects aim to improve efficiency, quality and reliability of electricity generation and transmission in Western and Central Ukraine. A range of specific objectives is defined but the full transmission chain from activities till results is not made explicit. Detailed economic and financial analyses underpin the project design. Issues to be addressed by the projects are delineated. The design of the project included a set of monitoring benchmarks against each expected result, with corresponding expected timing for each benchmark. One major risk is identified (risk of reversal of political pill to implement necessary reforms in the sector and proceed with the corporatization of the company). Project design is based on the assessment of a number of challenges faced by the Ukrainian electricity sector (e.g. low tariffs, risks of electricity shortages in the future due to increasing demand and deterioration of assets, etc.) (Source: EBRD, Memorandum, 2007).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The project aims to provide electricity from renewable energy sources for the Egyptian population, and to contribute to global environmental protection by providing environmentally sound electrical energy and avoiding the generation of CO2 emissions at a reasonable economic cost. It involves studies, design, construction and operation of a large-size onshore wind farm. The EU agreement does not show in detail the transmission chain from activities to results. (Source: EU Financing agreement, 2009). But the project design lies on a detailed feasibility study (2007) which proposes an environmental assessment, details the rationale behind the selection of the envisaged geographical area for the wind farm, and presents an economic and financial analysis (Source: Decon-Fitchner, Feasibility Study, 2008). The design documentation (financing agreement and project fiche) does not include an assessment of risks. The feasibility study presents an assessment of the risks that focuses on technical and market risks. During project implementation, political risks materialized. The development of the political situation has then been identified as a low to medium risk in the 2013, 2014 & 205 Quarterly reports; the monitoring of the situation was proposed as mitigating measure. (Sources: Financing agreement; Project fiche; Decon-Fitchner, Feasibility Study, 2008; and Quarterly progress reports during 2011-2015)

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The project aimed 'to improve public transport service and to ensure sustainability of an energy efficient and environmentally friendly means of transport' by upgrading Chisinau's trolleybus fleet. It aimed to improve air quality, reduce passenger congestion and reduce noise pollution in Chisinau. The FA briefly presents the activities, expected results and objectives; there is no logframe. The transmission chain is not well delineated; the same items are labeled both as expected results and as activities. (Source: EU Financing Agreement, 2010). Project design was underpinned by a feasibility study. Besides, the EBRD Memorandum presents a detailed assessment of the context and of the project. It also includes a

financial/economic analysis as well as a key risks and sensitivity analysis. (Source: EBRD, Memorandum, 2010). The 2015 EBRD OPA report indicates that 'appraisal was well conducted'.

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): Constraints at country level were not sufficiently well anticipated (in particular the limited willingness of banks to enter the project). The project therefore had to be implemented in two phases (2010-2013; 2013-2015). The objective of the project was "to bring additional solutions to achieve the diversification of energy resources in the East African region and help the region's transition towards renewable energy solutions that are technically, economically and financially viable". It aimed to contribute actively to bridging the technology and skills gap identified as the main impediment to the development of RE and EE projects in Kenya, Uganda, and later on in Tanzania. (Source: AFD, ITF application supporting document, 2010). The application document provides the EE and RE potential in Kenya and Uganda, with the sectors to target; there is no logframe. The required means to achieve the objective are indicated in the budget description. The transmission chain of effects is not clearly spelled out. (Source: AFD, ITF application supporting document – Annex 1, 2013).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the objective of the project is to make progress in energy efficiency and promotion of the use of renewable energy sources and resource efficiency in Morocco and Jordan (Source: EBRD, Standard project application form, 2013). The project consists in loans provided by participating DFIs to Participating Financial Institutions (PFIs) at commercial rates, with PFIs expected to on-lend to sub-borrowers at commercial rates, and technical assistance and grant, tailored to the specific needs of each PFI. A list of activities that may be financed by the facility, as well as the expected results and the activities to be implemented in order to achieve those results are detailed in the application form. The transmission chain of effects seems reliable. A range of quantitative and qualitative targets to be met throughout the results chain has been included in the design. A risk assessment is also provided in the same document. Furthermore, feasibility studies have been conducted both in Morocco and in Jordan.

I-9.4.2 Examination of the geographical area(s) targeted by blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- The geographical areas targeted by blending projects were characterized by their diversity: generally concerned specific locations (e.g. capital city or specific area to build a wind farm) within a country; the country; or several countries within a region.
- The location of the projects financing solar plants or wind farms (ENER/O.SolarPlant/MA #15 and ENER/Wind Farm/EG #32) was the subject of a specific analysis (e.g. degree of sunlight, wind conditions, ecological sensitiveness). In Egypt (ENER/Wind Farm/EG #32), specific measures were implemented to mitigate the impact of wind farms on migrating birds.
- Blending projects providing credit lines in support of renewable energy targeted countries in need (ENER/Env.Credit lines/REG #43-44: Kenya, Tanzania, and Uganda which intensively use biomass fuel and suffer from a severe lack of access to electricity) or countries presenting a potential for improving energy efficiency and developing renewable energy resources (e.g. Morocco and Jordan in ENER/SEFF/MA-JO #35)

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): le site retenu pour le complexe d'énergie solaire est Ouarzazate. Ce site bénéficie d'un des plus importants ensoleillements au monde, d'une topographie adéquate (surface plane), ne présente pas de conflit d'usage (e.g. pas de déplacement

de population ou d'activité économique) et est à l'écart des principales zones habitées. (Source: UE, Convention de financement, 2011; Interviews au Maroc). An independent study realized in 2015 notes that the project 'is situated within a complex livelihood context, characterized by a combination of environmental deterioration, social pressure, and economic marginalization.'

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The TA project concerns the corporatization of Ukrenergo. It covers Ukraine, without targeting a specific geographical area. (Source: EU agreement, 2009)

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The location of the wind farm is on the West banks of the Gulf of Suez (Egypt). The location is characterized by very favourable wind resource conditions (Source: EU Financing agreement, 2008). The identification of the areas suitable for wind power development was the subject of an environmental study. The area is consisting of desert ground and is not ecologically sensitive. There is complete absence of flora and very limited fauna. The field visit shows that specific measures were implemented to mitigate the impact of wind farms on migrating birds (shut down radar on demand) which could be replicated elsewhere. Besides, geotechnical investigations have been carried out to check foundation requirements. However the foundations posed quality issues, which have been resolved during project implementation. (Source: Decon-Fitchner, Feasibility Study, 2008; Interviews in Egypt). The feasibility study points out a logistical issue: there are no accommodation facilities in or near-by the area (the next location with facilities being 110 km away). It further notes that this may force the contractor to install mobile accommodation facilities for workers, engineering and management staff. The field visit in Egypt also showed that the aggressive site conditions might impose heavy maintenance costs. (Source: Interviews in Egypt).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): the location of the project is Chisinau (capital city), which concentrates a large share of the population of the country (Source: EBRD Project fiche).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): the regional dimension of the project is justified in the application form by presenting the challenges faced by the East African region to optimize the usage of energy sources. East Africa is facing a growing energy demand characterized by an intensive use of biomass fuel (wood, charcoal). The region also suffers from a severe lack of access to electricity. The project focuses on Kenya, Tanzania, and Uganda. In Kenya, the biomass fuel represented 68% of the total primary energy requirements, and in Uganda this figure reaches as much as 90 %. In terms of access to electricity, the rate is 12% in Tanzania, 17% in Kenya, and less than 10% in Uganda. The project was expected to contribute to the development of access to electricity especially in underserved rural areas, where several RE projects financed by the successive lines of credit were likely to emerge. (Source: AFD, ITF application supporting document, 2010)

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the project has targeted countries placed in the global Sunbelt, rich in wind, geothermal and, in some instances, hydropower resources. Furthermore, Morocco and Jordan aim to move beyond heavy dependence on fossil fuel imports and claim abundant potential for renewable energy production. (Source: EU, Contribution agreement – Annex 1, 2013). As mentioned in technical reports, both countries have considerable differences, but both face a number of common issues such as being net importers of fossil fuels for instance. Hence, both countries have potential for improving energy efficiency and developing renewable energy resources. They have recently begun to exploit renewable energy potential in large-scale projects. (Source: EBRD, Quarterly Technical Implementation Update, November 2014, and May 2015)

I-9.4.3 & I-9.4.4: Poverty-lens: Final beneficiaries targeted at design stage included poor people & Inclusion of poverty-targeting objectives and actions at design stage

Overall findings:

The review of the portfolio of blending projects shows that:

- The design documentation (including feasibility study) of the six reviewed blending projects does not include any reference to poverty reduction. The annex 'FIG technical advice and proposal' included in the Project Fiches for EBRD and KfW led projects includes a criteria with a pro-poor dimensions 'promoting sustainable socio-economic development, with a particular focus on pro-poor growth'. This criterion was not ticked for the reviewed projects.
- The six projects examined did not have a strong poverty alleviation focus. Two projects ENER/O.SolarPlant/MA #15 and ENER/Wind Farm/EG #32) are macro projects that should benefit the entire sector and country (trickle-down effect on socio-economic development). Project #15 however paid specific attention to the local development of the Ouarzazate region. Conversely, the MorSEFF credit line (ENER/SEFF/MA-JO #35) targeted fairly large enterprises demonstrating a good financial standing as sub-borrowers, which limits its poverty reduction effect.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): is a large infrastructure project expected to have -beyond positive environmental effects- a trickle-down effect on the socio-economic development of the Ouarzazate region. The beneficiary is the Moroccan Agency for Solar Energy ("MASEN") – a public entity entrusted to develop and implement the Moroccan Plan for Solar Energy. The final beneficiary chosen through an international tender is Acwa Power Ouarzazate (APO). APO not only received the loans lent by MASEN, but MASEN also participates in APO's equity, through the 100% subsidiary MASEN Capital. It is interesting to note that MASEN has made great effort to align Concentrating Solar Power deployment with the region's livelihood context to meet broader human development objectives and to integrate the project within the productive structure of the local economy. The project documentation (design documentation) does not include any reference to poverty reduction. (Sources: EU financing agreement, 2011 and EIB Project fiche; Interviews in Morocco).

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The beneficiary is Ukrenergo, the sole electricity transmission grid owner and operator. The project aims to improve the living standards in the country, without targeting a specific target group. There is no reference to the targeting of poverty. The project did not include poverty-targeting objectives or actions. (Source: EBRD, Memorandum, 2007). In the annex 'FIG technical advice and proposal' to the Project Fiche, the last criteria 'promoting sustainable socio-economic development, with a particular focus on pro-poor growth' is not ticked (Source: EBRD, Project fiche).

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The El Zayt wind farm provides a macro benefit to the entire sector and country. The project documentation (design documentation including feasibility study) does not include any reference to poverty reduction. Besides, in the annex 'FIG technical advice and proposal' to the Project Fiche, the last criteria 'promoting sustainable socio-economic development, with a particular focus on pro-poor growth' is not ticked (Source: KfW, Project fiche). The site visit in Egypt confirmed that there was little over poverty alleviation focus. (Source: Interviews in Egypt).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The project documentation (design documentation including feasibility study) does not include any reference to poverty reduction.

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): poverty alleviation is not mentioned as being the objective of the project. (Source: AFD, ITF application supporting document, 2010). The pro-poor benefits of SUNREF are more indirect, notably by reducing operating costs the project improves sustainability of employment (in the case of KTDA tea factories, Alpha-Knit factory, and other factories that are now using the bio-mass briquettes provided by Lean Energy). It should be mentioned that in some cases, the projects funded under SUNREF have caused damages to the population. In the case of the KTDA/Gura hydro power plant, it was reported that compensations for the damages caused to the properties of land owners had to be paid. Due to this project, some farmers also had to cede parts of their land. (Source: Interviews in Kenya).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the envisaged activities are not explicitly linked to poverty reduction. The credit line targeted fairly large enterprises demonstrating a good financial standing as sub-borrowers, which limits its poverty reduction effect. (Source: EBRD, Project submission form, 2013; Interviews in Morocco)

JC 9.5 Climate change-related blended projects have been implemented as planned in the design phase

I-9.5.1 & I-9.5.2 Comparison of the actually completed activities with planned activities & Explanations of deviations (if any) in the implementation of blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- Three out of the six projects under review presented a good project implementation status (ENER/O.SolarPlant/MA #15, ENER/Ukrenergo/UA #8, TRANS/PublicTrans/MD #10)
- Half of the examined projects (ENER/Wind Farm/EG #32 in Egypt and ENER/SEFF/MA-JO #35, ENER/Env.Credit lines/REG #43-44) showed implementation delays (between 1 year and 1,5 year) due to the deterioration of the political situation in Egypt; lengthy negotiations with banks in Morocco and Jordan (ENER/SEFF/MA-JO #35) and in Kenya (ENER/Env.Credit lines/REG #43-44) that were unwilling to enter the energy efficiency market segment. It delayed achievement of the project milestones.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): The project consists in building a renewable energy production facility, which will reduce both dependence on imported fossil fuels and their negative impacts on the natural environment. The solar plant has been built over a two-year period (2013-2015) with no major delay compared to what was planned initially. Construction works are of good quality. (Source: EIB, Project progress report, 2013 & 2014; Site visit in Morocco).

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The TA team prepared in three stages –as envisaged in the EU agreement- several reports to support the corporatization process of Ukrenergo (assessment of the situation of the company; draft versions for the amendments to the Ukrainian law so that the corporatisation can be implemented; and corporatisation road map). (Sources: EU agreement, 2009; Project progress report, 2012). Project monitoring/completion documentation is only related to the TA provided through blending; and does not concern the EIB and EBRD loans to the transmission line.

ENER/Wind Farm/EG #32 (2008-KfW-Grant): Planned activities are not detailed in the EU Financing Agreement/KfW project fiche. The feasibility study presents an investment cost estimate with the costs of the various envisaged activities. The project is divided into 4 lots (Lot 1: wind turbine contract; Lot 2: site works contract; Lot 3: service area works contract; Lot 4: substation contract). Implementation delays (between 1 year and 1,5 year) have been experienced for all lots. Construction was due to start in early 2011 but delayed 5 months due to the political instability during 2011 (e.g. flights cancelled, communication by phone and Internet restricted) and 5-6 months due to technical issues between contractors on the cable entrance for the projects for Lot 4, or to difficulties with custom clearances for Lot 1. This delayed the achievement of the project milestones. Several amendments to the consultancy contracts were signed to extend time duration. In
End 2014, implemented activities per lot were as follows:

- For Lot 1, all 100 Wind Turbine Generators were erected during the 4th quarter of 2014. 47 turbines are energized; hereof 28 turbines are in test run and 6 turbines are ready for energizing.
- For Lot 2, during the 4th quarter of 2014, construction work should have been completed, which was not the case for all works: all internal site roads were completed with first and second layer, accepted and handed over; construction of the access road and substation road was initiated; all trenches and cable work were completed.
- For Lot 3, electrical work was ongoing for the various stores; the control room was delayed in 2013 and finalized during the 4th quarter of 2014.
- For Lot 4, during the 4th quarter of 2014, the substation was finished. The transmission line between Zafarana and El Zayt finished and used for energizing the substation.

(Source: Quarterly progress reports during 2011-2015)

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The 2015 EBRD OPA report indicates that the project was completed on time (by end of 2012) and at the quality standard required. Four main activities were envisaged. Two of them (1) and 2)) were to be financed by the EBRD & EIB loans and the EU NIF contribution. The two latter were financed through the EBRD Technical Cooperation Funds Programme.

1. For the equipment, all trolleybuses (102 = nearly 1/3 of the Company's fleet) and the contracts for maintenance (e.g. washing systems) were supplied in full on time and within budget. This is confirmed by the interviews led in EBRD HQ and in the field in Moldova.
2. For the restructuring of the Chisinau Trolleybuses Company, a Public Service Contract (which sets out a formula for service payments from the City to the Company in return for transport services of an agreed quantity and quality to be provided by the Company) was signed in August 2011 between the City and the Company, and the Client started to operate under its provisions in January 2012.
3. Concerning the support to designing and procuring an electronic ticketing system, the contracting was significantly delayed (visa issues) and retendered. The completion of this component was expected by end 2014, hence with a 2-year delay. The field visit conducted early 2016 shows that the system was not yet in place.
4. Concerning the restructuring of the Institutional and Regulatory Framework for public transport in Chisinau, a programme financed by the German Government was only initiated in 2011 due to delays in the procurement process. The transport strategy (which aims to exclude routes of minibus taxi doubling trolleybus routes) was adopted mid-2015 although this was lengthy.

(Sources: EBRD, Project fiche; EBRD, OPA report, 2015; EBRD, TIMS, 2014; EBRD, Final technical and financial report, 2013; Quarterly progress report, 2013; Interviews at EBRD HQ and in Moldova).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): Phase I of the project had to cope with delays due to the policy country context (it took time to have the PPA operational in Kenya for instance) and limited willingness of the banks to enter the small scale EE-RE market segment. The total planned amount for TA was used during Phase I. The Regional TA Programme (RTAP) has been successful in identifying a pipeline of projects (with about 96 projects potentially eligible to AFD credit lines) and in providing various supports (training, feasibility studies) to different stakeholders. Activities were implemented almost exclusively in Kenya, whereas Uganda and Tanzania were also part of the project. A project extension, with additional funding, was asked for 2 main reasons, highlighting that the project was not correctly designed:

- The project took more time than excepted to be implemented: instead of a 2-year period of time, the project should have been requested for 4 years, notably because of long starting of activities to fully define and operationalize the programme, and because of financial barriers more difficult than anticipated.
- More activities than expected were funded: the size of the technical and financial assistance was not designed at the level of the actual needs (the existence of the RTAP created a lot of expectations).

(Source: AFD, Additional Information following the discussions at the 27th Executive Committee, 2013; Interviews in Kenya with IFI and end beneficiaries)
At sub-projects level, a 2-year delay has been observed for the KTDA/Gura hydro power plant, mainly due to delays in negotiations with land owners. While the developer is now confident of finalizing construction by March 2016, it appears a further 6-9 months' delay may result since land acquisition is still not completely finalized and a fairly significant portion of civil and electro-mechanical works remain outstanding. (Source: Interviews in Kenya with IFI and end beneficiaries)

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): the activities were expected to start in March 2013 in both countries. But due to the extended time period required for negotiations with banks, the Inception Phase was extended to the end of August 2014. The implementation phase then started in September 2014, while first loan agreements signed were initially planned in July/August 2013. In Jordan, the implementation has been put on-hold, notably due to difficulties in negotiations with banks, and competition from other credit lines. (Sources: EBRD, Quarterly Technical Implementation Update, November 2014, and May 2015; EBRD, SEMED SEFF Steering Committee - Achievements since signing the Contribution Agreement, 2015). In Morocco, three PFIs should benefit from credit lines. At the time of the mission, one credit line for BMCE had been drawn, and discussions were ongoing with CAM and BCP. The credit line for BMCE has been fully engaged in one year (April 2015-April 2016). (Source: Interviews in Morocco).

I-9.5.3 & I-9.5.4 Comparison of the actually completed outputs with planned outputs & Review of other contributing factors to observed outputs

Overall findings:

The review of the portfolio of blending projects shows that all projects achieved (some of the) planned outputs. For half of the examined projects (ENER/Ukrenergo/UA #8, TRANS/PublicTrans/MD #10, ENER/O.SolarPlant/MA #15), outputs were completed as planned. For the other half, significant delays were encountered. Two of the six projects completed outputs, but with significant delays. For ENER/Wind Farm/EG #32, while the political instability in Egypt impacted on the project, the project was overall able to resume and produce the expected outcomes. ENER/Env.Credit lines/REG #43-44 completed a range of outputs within the framework of the extension of the project (phase 2). ENER/SEFF/MA-JO #35 is ongoing and behind schedule. A credit line has been awarded to one of the three PFIs (out of the three envisaged); it has been fully engaged in one year and concerns the financing of just above 50 projects.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): EIB project progress reports do not report on the outputs achieved. The plant (Noor I) is running at full capacity since February 2016 with a production capacity of 160MW/hour as planned. It operates during approximately 12 hours per day and has a storage capacity of 3 hours to provide energy during peak periods. (Source: Interviews in Morocco).

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): the 2012 progress report notes that one of the tangible outcome is the adoption, on 14 November 2011 by the Minister of Energy and Coal Ministry, of the Road Map for Corporatisation of Ukrenergo. This Road Map envisages 'a number of dated steps leading to Corporatisation of Ukrenergo by the end of 2012, which corresponds to the EBRD loan conditionalities set forward in Zaporizhzhia-Kakhovska High Voltage Line Project Loan Agreement signed in 2010'. (Source: Progress report, 2012). This is in line with initially envisaged outputs.

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The quarterly progress reports do not report on the outputs or on the results achieved. They focus on the activity level only. (Source: Quarterly progress reports during 2011-2015). In spite of delays, the field visit shows that the project was overall able to resume and produce the expected outcomes. The 100 turbines have been opened in November 2015 and are producing electricity into grid: 550 MWH have been produced over the last year. There are some concerns over the quality of the technology provider (Gamesa). There is a 5-year operation and maintenance contract in place and training has been provided to the New and Renewable Energy Authority (NREA) staff although this training has fallen short of in-depth technical design and adjustment. (Source: Interviews in Egypt).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): The acquisition of trolleybuses resulted in improved services for the company's customers, in a context where trolleybuses had a lead position, transporting over 180 million passengers annually. It also improved the accessibility of public transport for disabled persons. (Source: EBRD, Project fiche & EBRD, OPA report, 2015; Interviews in Moldova).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): The initial outputs of the project could not be reached during phase 1: the project took time to start due to the banks' limited willingness to enter the small scale EE-RE market segment and the outputs were ambitious. Phase 2 was launched and project progress reports indicate that the outputs achieved as of April 2013 go beyond the initial expectation in terms of the dynamic of the EE/RE market:

- The RTA team has reviewed 89 projects out of the 96 in the pipeline, accounting for a potential installed capacity of 210 MW, a potential energy flux of 1059 GWh/yr, and an estimated annual CO2 abatement of over 990 000 tons. 30 out of the 89 projects are energy efficiency projects. The total investment for the 89 projects equals $486 million, with a debt finance requirement of $294 million. The investments have not yet taken place.
- 8 eligibility certificates (authorizing a financing through the credit lines) have been delivered by the RTA team;
- 69 sponsors have also been trained mostly in Kenya;
- 3 feasibility studies have been financed, and 9 were under appraisal of process;
- 4 seminars and trainings have been organized. Training on the appraisal of Renewable

Energy and Energy Efficiency projects has been provided by the RTA team to the two Kenyan participating banks and to one Tanzanian bank. In Kenya, the banks have learnt to assess RE-EE risk and are mainstreaming this lending in their strategies.

(Source: AFD, Additional Information following the discussions at the 27th Executive Committee, 2013; Interviews in Kenya)

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): The credit line awarded to BMCE concerns the financing of just above 50 projects (25 are ongoing and 27 are in portfolio). Two thirds of the projects are in the sector of industry. The projects mostly concern energy efficiency investments (and less so renewable energy investments). The average loan size is about €200,000. Besides, TA is being made available within the whole duration of the Facility to help BMCE develop a new product, and multiple training sessions have been conducted with BMCE. (Source: EBRD, SEMED SEFF Steering Committee - Achievements since signing the Contribution Agreement, 2015; EBRD HQ Interviews, July 2015; Interviews in Morocco).

JC 9.6 Climate change-related blended projects are likely to deliver development results

I-9.6.1 The (final) beneficiaries targeted at design stage have been reached

Beneficiaries that were envisaged at design stage (in the project fiche and in the EU agreement) benefitted from the financial support of the various facilities. Generally, the project documentation on the implementation and completion of blending projects does not report on the final beneficiaries reached.

I-9.6.2 & I-9.6.3 Effective use, by the beneficiaries, of the knowledge and expertise transmitted with blended projects, as well as of the outputs achieved with blended projects

Overall findings:

The review of the portfolio of blending projects shows that:

- 3 out of the 6 blending operations are completed (ENER/Ukrenergo/UA #8, TRANS/PublicTrans/MD #10, ENER/Env.Credit lines/REG #43-44); 1 is near completion (ENER/O.SolarPlant/MA #15); 2 (ENER/Wind Farm/EG #32, ENER/SEFF/MA-JO #35) are still ongoing with ending dates between 2017 and 2021. Progress reports generally do not report on the use by the beneficiaries of the outputs achieved. The documentary review and the field visits show that five out of 6 show a positive picture. For ENER/O.SolarPlant/MA #15 and TRANS/PublicTrans/MD #10, the population benefits from the outputs achieved by the projects. The two credit line projects impulsed at bank level a change of mind-set towards the RE-EE market segment: ENER/Env.Credit lines/REG #43-44 led to shifts in strategy and lending policy to embrace new innovative cash flow based lending, while ENER/SEFF/MA-JO #35 encouraged BMCE to start reflecting internally on how to institutionalise the outputs obtained (e.g. through adapting its strategy towards sustainable energy or hiring engineers to ensure technical advice internally). For ENER/Ukrenergo/UA #8, the recommendations formulated by the TA team were not as yet taken on board due to the conflict situation in Ukraine.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant): The ONEE uses the electricity produced by Noor I since February 2016. The local population benefits from the 38 local development projects implemented in the areas of education, health, agriculture and infrastructure. (Source: Interviews in Morocco, Site visit; 2013 EIB progress report)

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): the 2012 progress report notes that one of the tangible outcome is the adoption, on 14 November 2011 by the Minister of Energy and Coal Ministry, of the Road Map for Corporatisation of Ukrenergo. (See above JC9.5). Interviews with EBRD staff in headquarters indicated that on the institutional and reform front the plans and recommendations have been made but that they were not implemented as yet due to the conflict situation in Ukraine.

ENER/Wind Farm/EG #32 (2008-KfW-Grant): The quarterly progress reports do not report on the use by the beneficiaries of the outputs achieved. They focus on the activity level only. (Source: Quarterly progress reports during 2011-2015).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): There is no precise information in the documentation. The field visit shows that the population of Chisinau uses the trolleybuses. (Source: Interviews in Moldova).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): There is no precise information in the documentation. BMCE started reflecting internally on how to institutionalise the outputs obtained (e.g. through adapting its strategy towards sustainable energy or hiring engineers to ensure technical advice internally). (Source: EBRD, Q4 Technical report, 2014; Interviews in Morocco).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): There is no information in the documentation. The visit in Kenya shows there are changes in mind-sets and perception, with greater awareness of the energy issue. At bank level, there are i) shifts in strategy and lending policy to embrace new innovative cash flow based lending; and ii) new risk analysis skills that enable banks to assess this type of loan. However, some of the projects funded under SUNREF have caused damages to the population. In the case of the KTDA/Gura hydro power plant, it was reported that compensations for the damages caused to the properties of land owners had to be paid. Due to this project, some farmers also had to cede parts of their land. (Source: Interviews in Kenya).

I-9.6.4 & I-9.6.5 Review of the results (or likely results to be) achieved with blended projects and of their potential development impact & Review of other contributing factors to observed/potential development results

Overall findings:

The review of the portfolio of blending projects shows that:

- Most projects have a positive potential in terms of environmental impact. They also have (the potential for) socio-economic effects.
  - TRANS/PublicTrans/MD #10 (closed): For project #10, the target of reducing by 20% energy consumption was not achieved during the 2014 TIMS review, but energy consumption did reduce in overall volume terms by 8% in Q3 2012 compared to Q3 2011, and the company was expected to reach the target in 2013. The field visit shows that the reduction of the number of minibuses in the municipality from 1800 (before the project) to 1300 minibuses has improved the traffic and the ecological situation in the city. Besides, improvements regarding the urban and regulatory framework for urban transport are mixed: the revised transport strategy is implemented but the e-ticketing system awaited for several years is not yet in place.
  - ENER/Ukrenergo/UA #8 (closed): the corporatization process was not yet completed in July 2015 due to the conflict situation in Ukraine.
  - ENER/Env.Credit lines/REG #43-44 (phase I closed): several results already took place a) switch to RE and energy savings (EE) among the beneficiaries targeted at design stage,

b) net savings in energy bills for SMEs, c) and 'first' signings of PPAs with Kenya Power to sell surplus solar energy into the grid.

- ENER/O.SolarPlant/MA #15 (near-completed): the plant is in operation at full capacity since February 2016. The potential carbon emission reductions were assessed using the EIB carbon footprint methodology in a conservative perspective. It is expected that the 500 MW Ouarzazate Program (Noor I, II, III) will avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) by producing renewable electricity. So far Noor I is in exploitation and construction works are ongoing for Noor 2 and 3 (until the second semester of 2017). The project also has had economic effects locally and in Morocco in terms of business generation around renewable energy. It also had social effects on the population of the Ouarzazate region through the implementation of 38 local development projects in education, health, agriculture, infrastructure during the period 2010-2015. Finally, larger effects related to the reduction of Moroccan dependence on imported fossil fuels are expected in the medium term.
- ENER/Wind Farm/EG #32 (ongoing): the project has led to lower carbon emissions and the use of clean fuel, but project key performance indicators do not explicitly measure amount of offset carbon emissions.
- ENER/SEFF/MA-JO #35 (ongoing): In promoting energy efficiency and renewable energy investments, MorSEFF will contribute to reduce greenhouse gas emissions. It also has potential on the economic front since it enables benefiting enterprises to optimise their productivity (through the renewal of equipment) and to reduce their production costs (energy bill). However, the project remains at a rather micro level (with around 50 enterprises having benefited from the first credit line extended to BMCE).

- Two blending projects in Guyana were recently approved (in 2014). Project #21 expects to lead to a reduction of Greenhouse Gases emission level of about 300 ton per year. Project #22 expects to lead to an accumulated result of approximately 98,000 ton CO2eq reduction during its first 5 years of implementation. Project ENER/Ext.5deNov/SV approved in 2011 (not visited by the team) expected to contribute significantly to climate and environmental protection by saving approx. 93.000t CO2 p.a. with the extension of the existing hydro power plant "5 de Noviembre" in El Salvador.

Illustration of detailed facts and findings at project level:

ENER/O.SolarPlant/MA #15 (2011-EIB-Grant):

The project has a clear potential of environmental impact in the future. The potential carbon emission reductions were assessed using the EIB carbon footprint methodology in a conservative perspective. It is expected that the 500 MW Ouarzazate Program (Noor I, II, III) will avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) by producing renewable electricity. The five solar plants envisaged by the Moroccan Solar Plan have a full target capacity of 2,000 MW by 2020 that should reduce carbon emissions by 3,7 million ton CO2. (Source: interviews in Morocco, site visit, project documents).

The project also has the potential to lead to wider socio-economic results:

- Economic effects locally and in Morocco in terms of business generation around renewable energy. So far, around 30 new enterprises set up operations in Ouarzazate and in the country.
- Social effects: MASEN invested more than €5m in 38 local development projects in education, health, agriculture, infrastructure during the period 2010-2015 to support the integration of power plant projects in their socio-economic and territorial environment. These projects enabled to reconstruct roads, provide health care, promote entrepreneurship through seminars, etc. They reached 20,000 direct and indirect beneficiaries according to MASEN. A 2015 independent study notes that 'the planning and construction phases have already had positive and negative effects on people's livelihoods, varying within and between communities across

the different project phases'. The population's acceptance of the project was high, notably due to 'MASEN's approach that addressed the livelihood dimension of the project'. But there were 'community protests during the construction phase and local opposition in communities directly neighboring the power plant'. 'MASEN has made great effort to align Concentrating Solar Power (CSP) deployment with the region's livelihood context to meet broader human development objectives and to integrate the project within the productive structure of the local economy. Yet, CSP technology is not a panacea to alleviate regional poverty and to deliver broader socio-economic development gains. Consequently, most of the benefits stemming from the plant (Noor I) were evaluated as being of low to moderate significance.' (Source: Wuppertal Institute; Germanwatch (2015): Social CSP – Energy and development: exploring the local livelihood dimension of the Noor I CSP project in Southern Morocco).

- Larger effects related to the reduction of Moroccan dependence on imported fossil fuels are expected in the medium term once the other four envisaged solar power generation plants will be in operation. EIB staff interviewees also noted that the project 'got renewable energy going' and helped the Moroccan authorities over the threshold of starting.

(Source: Interviews in Morocco with MASEN and IFIs, Site visit, project documents)

ENER/Ukrenergo/UA #8 (2009-EBRD-TA): The corporatization process was not yet completed in July 2015 (conflict situation in Ukraine); hence results cannot be assessed. Besides, full corporatization was a key covenant of EBRD/EIB parallel loans 'Rivne-Kyiv High Voltage Line Construction Project' which was expected to contribute to the reduction of greenhouse gas emission reductions (2.3 mln tonnes of CO2 per year). Project monitoring/completion documentation is only related to the TA provided through blending; and does not concern the EIB and EBRD loans to the transmission line.

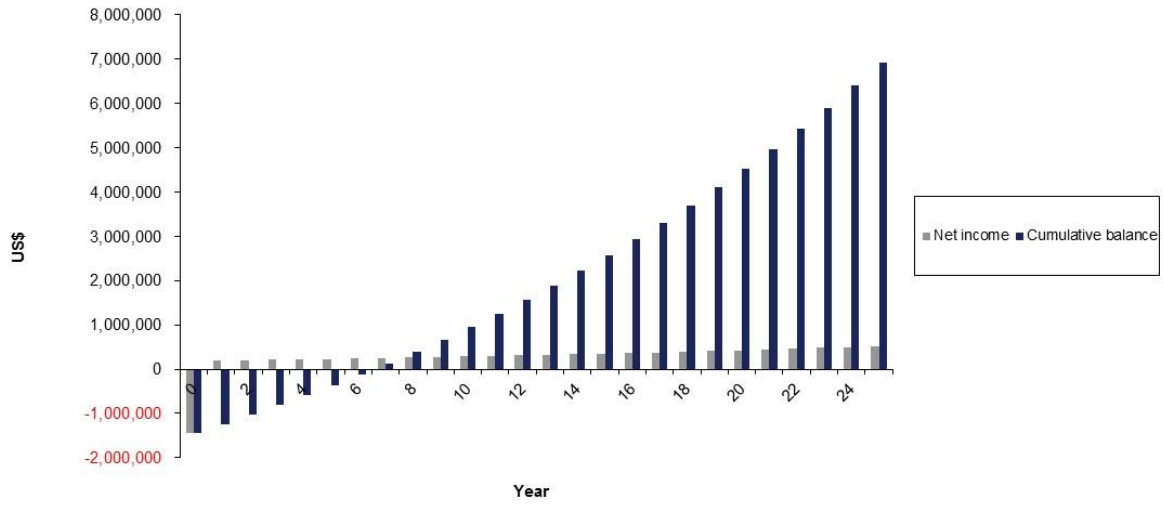
ENER/Wind Farm/EG #32 (2008-KfW-Grant): The quarterly progress reports do not report on the outputs or on the results achieved. They focus on the activity level only. (Source: Quarterly progress reports during 2011-2015). The field visit shows that the project has led to lower carbon emissions and the use of clean fuel. But project key performance indicators do not explicitly measure amount of offset carbon emissions. In addition to its environmental benefits, wind energy also has the potential to become a cheaper source of energy than traditional fossil fuels. The project has also contributed to improving the enabling environment and building confidence in adopting a market based approach to scaling up wind energy. (Source: Interviews in Egypt).

TRANS/PublicTrans/MD #10 (2010-EBRD-Grant): Energy savings were expected with the project since the consumption of trolleybuses is half of that of diesel buses. 'Supporting the City in financing the investment of up to 90 trolleybuses instead of the same number of diesel buses will result in energy savings of 40.8 GJ per annum. CO2 emissions will be reduced by approx. 30 000 tonnes per year.' (Source: EBRD, project fiche). The benchmark to be reached was 'Reduction in energy consumption by at least 20%' (Source: EBRD, TIMS, 2014). The target was not achieved during the 2014 TIMS review, but 'energy consumption did reduce in overall volume terms by 8% in Q3 2012 compared to Q3 2011, and the team expects the company to reach the target in 2013'. (Source: EBRD, TIMS, 2014). The field visit shows that the reduction of the number of minibuses in the municipality from 1800 (before the project) to 1300 minibuses has improved the traffic and the ecological situation in the city (Source: interviews in Moldova). However, the original transition impact was expected to come from the implementation of an e-ticketing system and improved urban and regulatory framework for urban transport. The delays experienced under these two components (2-year delay due to lengthy procurement and contracting of the consultants -hence beyond the control of the City and of the Company-) led the EBRD to downgrade the project potential from good to satisfactory. (Source, EBRD, TIMS, 2014). The field visit conducted in Moldova shows that the transport strategy is being implemented but that the e-ticketing system

was not yet in place early 2016. (Source: Interviews in Moldova).

ENER/SEFF/MA-JO #35 (2013-EBRD-Grant): MorSEFF promotes energy efficiency and renewable energy investments that shall also avoid greenhouse gas emissions (the target of 150,000 ton CO2/annum was set at design stage for the Sustainable Energy Finance Facility for both Morocco and Jordan). The project is still ongoing; it has a clear potential in terms of environmental and economic effects. The project remains at a rather micro level with around 50 enterprises having benefited from the credit line extended to BMCE but has potential on the economic front since it enables benefiting enterprises to optimise their productivity (through the renewal of equipment) and to reduce their production costs (energy bill). Moreover, additional enterprises will benefit from the credit lines to be extended to two other PFIs. The project has not yet started in Jordan. (Source: EBRD, Q4 Technical report, 2014; Interviews in Morocco).

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): Expected environmental results have not been quantified in the design documentation of phase I. The field visit in Kenya indicated that the following results were noted: a) switch to RE and energy savings (EE) among the beneficiaries targeted at design stage, b) net savings in energy bills for SMEs, c) and 'first' signings of PPAs with Kenya Power to sell surplus solar energy into the grid. (Source: interviews with IFI and end beneficiaries in Kenya). To illustrate, the net saving in energy bills for one of the sub-projects at Strathmore University is quantified in the graph below which indicates a cumulative of close to USD 7 million after a 25-year period.



JC 9.7 Blended projects have been designed to foster the growth of SMEs

I-9.7.1 Assessment of the reliability of the expected transmission chain from activities until results and impacts

Illustration of detailed facts and findings at project level:

BANK/EFSE/MC #36 (2009-KfW-RC): The goal of the European Neighbourhood Small Business Growth Fund (ENBF) is to foster economic development and prosperity in the European

Neighbourhood Region (ENR). It aims to attract private capital and thereby leveraging investments for the development of the private sector, in particular, MSME and housing. The project design documents (funding proposal, contribution request) does not precisely delineate the full transmission chain of effects. The establishment of the proposed ENBF is fully described. The project design is based on an assessment of the macroeconomic context and business environment. The benefits and the risks related to the project are assessed. The financial sector of the ENR has also been analysed. (Source: KfW, ENBF funding proposal to the EU, no date). At design stage, instead of creating a stand-alone entity (ENBF), it has then been decided after further consultations with key stakeholders to integrate the ENBF into the existing and successfully operating European Fund for South East Europe (EFSE) (Source: KfW, Project fiche, 2009).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): The agreement details the specific objectives and the envisaged activities; the transmission chain of effects is not precisely delineated; there is no overall objective or logframe. The project aims –amongst others- to rebuild financial intermediaries' confidence to extend financing to MSMEs. The facility combines the EBRD, the EIB and KfW loans or guarantees to participating financial intermediaries ("PFIs"), for on-lending to eligible MSMEs, with EU grant resources to support SME lending during the crisis period and beyond. It has two windows, one for EBRD and KfW's SME operations and the other for EIB's SME operations. Each window comprises a 'TA' and a 'Credit enhancement support'. The NIF contribution is used to finance incentives for PFIs to enhance their lending to the SME/MSME segments. (Sources: EU, Contribution agreement, 2010; EBRD, Contribution Request nr. E5, 2010).

I-9.7.2 Examination of the geographical area(s) targeted by blended projects

Illustration of detailed facts and findings at project level:

BANK/EFSE/MC #36 (2009-KfW-RC): the project has a regional coverage with the ENBF relating to the Eastern EU Neighbourhood Region. The global financial crisis has produced severe strain on the economies of this region. Access to finance has become critical, and financial institutions suffer from the breakdown of local and international capital market. MSMEs are particularly affected. In the course of the design, ENBF has been integrated into EFSE with several sub-funds, such as ENR Sub-fund covering various countries, Caucasus Sub-fund and national sub-funds. The first phase has identified Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Both rural and urban areas are covered by the project. (Sources: KfW, ENBF funding proposal to the EU, no date; KfW, Contribution request nr. E1, 2009; EU Delegation Agreement, 2009).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the facility is implemented "in Eastern Partnership Countries/region where lending to SMEs has all but stopped due to heightened risk aversion of the PFIs resulting from the crisis." The TA support provided aims at maximising the ability of financial institutions to service the needs of the SME sector as well as to expanding their SME financing to new areas and to develop new products for the target group, particularly in key, under-banked regions of the eligible countries. (Source: EU, Contribution agreement, 2010)

I-9.7.3 & I-9.7.4: Poverty-lens: Final beneficiaries targeted at design stage included poor people & Inclusion of poverty-targeting objectives and actions at design stage

Illustration of detailed facts and findings at project level:

The design documentation of the two NIF PSD-related projects (#12 and #16) does not mention poverty alleviation as an objective to reach and does not explicitly designate poor people as final

beneficiaries. The field visit in Georgia shows that these two credit lines did not have a pro-poor dimension as far as final beneficiaries reached are concerned.

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the project design documents do not mention poverty alleviation as an objective to achieve. The documents neither refer to poor people as final beneficiaries. (Sources: EU, Contribution agreement, 2010; EBRD, Contribution Request nr. E5, 2010). The field visit in Georgia shows that the beneficiaries were not the smallest and the most excluded MSMEs. (Source: Interviews in Georgia).

BANK/EFSE/MC #36 (2009-KfW-RC): project design document do not explicitly designate poor people as final beneficiaries, neither mention poverty alleviation as an objective to reach. Nevertheless, the relevance of supporting MSMEs for poverty alleviation and employment generation in the region is detailed. Indeed, the informal economy makes up for a significant part of the income in the region. In Armenia for instance, SMEs in the informal sector employ about 600.000 people and contribute about 50 % to GNI. MSMEs in the informal sector are often established to substitute for a missing social safety net and support vulnerable groups. The high incidence of poverty and the significant estimated size of the informal sector illustrate the high significance of micro and small business for income generation and employment and thus poverty reduction in the ENR countries. (Source: KfW, ENBF funding proposal to the EU, no date). Furthermore, EFSE's approach consist in cooperating with different types of financial institutions, including microfinance institutions, that all share an interest in serving micro and small enterprises as well as low-income households. (Source: KfW, Annual narrative report of 2014, 2015). The field visit in Georgia however shows that the lines of credit did not have pro-poor dimensions. (Source: Interviews in Georgia).

JC 9.8 PSD-related blended projects have been implemented as planned in the design phase

I-9.8.1 & I-9.8.2 Comparison of the actually completed activities with planned activities & Explanations of deviations (if any) in the implementation of blended projects

Illustration of detailed facts and findings at project level:

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): according to the Annual report of 2014, the EBRD/KfW window has almost completely been allocated to projects, with a total loss risk sharing allocation of 9M EUR and a TA allocation of 0.78M EUR shared among the project as follows:

- SME Energy facility (Ukraine), EU grant: 3M EUR (loss risk sharing)
- SME leasing (Moldova), EU grant: 0.6M EUR of loss risk sharing (due to changes in the management of the company and an envisaged review of the strategy, the decision was taken to delay the provision of TA).
- Georgian Agricultural Finance Facility – GAFF (Georgia; EBRD/KfW), EU grant: 5.4M EUR of loss risk and 0.78M EUR of TA (the EBRD has engaged a consultant to support the GAFF lending programme. The consultancy services started in November 2011 and were completed in early June 2013

(Source: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015; Interviews in Moldova)

BANK/EFSE/MC #36 (2009-KfW-RC): as of 31 December 2014, KfW has subscripted the equivalent of 4.98 M EUR (C-shares) as EU contribution in the ENBF window of EFSE. (Source: KfW, Annual narrative report of 2014, 2015).

I-9.8.3 & I-9.8.4 Comparison of the actually completed outputs with planned outputs & Review of other contributing factors to observed outputs

Illustration of detailed facts and findings at project level:

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the 2014 annual report progress indicates that 3 types of projects have been identified, namely: the Ukraine SME Energy Facility, the Moldova SME leasing, both EBRD-only projects, and the Georgian Agricultural Finance Facility (GAFF), a joint EBRD-KfW project.

- Regarding the Georgian Agricultural Finance Facility, 4 MFIs are benefiting from the credit enhancement mechanism. The field visit in Georgia shows that MFIs have benefitted from TA (trainings) and have implemented efficient processes toward MSMEs in the agricultural segment. The grant and its components (TA, subsidy, individual and portfolio guarantees) were not key to help banks to enter the agriculture segment but contributed to it. In 2014, the MFIs registered an average increase of their agricultural portfolio between 5.5% and 13.5%. Eligible losses of the claims amounted to around 257.000 EUR in 2014. The first loss cushion did not get banks to shift their risk parameters and accept more risk. Banks mentioned that other forms of (individual) credit enhancement via credit guarantees would be preferable than the first loss cushion. Interviewees noted that new branches were opening. (Source: EBRD, 2014 Annual Progress Report on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015; KfW HQ Interviews, 2015; Interviews in Georgia).
- As regards the Ukraine SME Energy Facility, the loan agreement between EBRD and UkrEximBank in Ukraine was signed in February 2012, but given the difficult macroeconomic situation in the country, the 1st disbursement under the loan agreement was made only in December 2012. Furthermore, the demand for sustainable EE loans decreased during 2014, after a sharp devaluation of the local currency, rapid inflation and declining GDP. However, thanks notably to the continued reform of the energy sector in Ukraine, the bank was able to create a pipeline and disburse the remaining SME EE loan from the EBRD. As of 31 December 2014, 11 sub-projects were signed for 22.8 M EUR under the credit line. None of the outstanding sub-loans was overdue. (Source: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015).
- Finally, regarding the Moldova SME leasing, a total of 2 M EUR has been disbursed to BT leasing by EBRD in 2011, out of which 224 projects were financed. Ten percent of the loan was made available as a risk sharing mechanism for the partner FI. The portfolio at risk of the partner FI was limited (not a day of overdue during 3 years, PAR(30) of 4.5% in 2015). As a result, only 50% of the 10% loss cushion has been used, for a client involved in meal and honey. Thanks to the availability of this guarantee mechanism, the share of SMEs clients in the partner portfolio has increased from 60% (in 2012) to 80% currently (shift from individuals to SMEs) and the equipment sector for SMEs now represents 35% of the portfolio (10% in 2012). The overall leasing activity of the company has increased by 50% from 2013 to 2014. (Sources: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015; interviews in Moldova)

BANK/EFSE/MC #36 (2009-KfW-RC): the expected outputs of the project were the participation of about 25 PFI within 6 years and about 30-40.000 MSMEs to benefit from the ENBF. The funding proposal also mentions that "a much higher expansion is likely as the C-share capital is gradually augmented through retained earnings of the C-shares and more importantly additional donor/government funding". In such a case, the participation of PFI could go up to 100 PFIs and the number of benefitting MSMEs to about 150,000. (Source: KfW, ENBF funding proposal to the EU, no date). KfW interviewees at HQ mentioned that the EFSE facility has

mobilised IFIs and the private sector investors. It has also helped, through the TA, to improve the performance of the financial sector in the relevant countries. (Source: KfW Interviews, 2015). At year-end 2014, the EFSE outstanding sub-loan portfolio was EUR 798.5 million. During 2014, the Fund financed more than 120,000 sub-loans at a total amount of EUR 835.9 million. The ENR presence within EFSE investment portfolio has been increased from 2010 onwards, comprising total sub-loan disbursements up to now by 24% in number and 26% in volume. (Source: KfW, Annual narrative report of 2014, 2015).
The field visits show that:

- In Moldova, between 2006 and 2015, EFSE has approved a total amount of 100 million EUR of loans (facilitating a total amount of 149 million EUR of sub-loans), corresponding to 14 368 sub-loans, and has financed a total of 1.6 million EUR of TA (43 projects implemented). The average sub-loan amount of partner FIs over the period 2007-2015 amounted 3473 EUR for the MFI that has beneficiated from 7 TA (to strengthen its financial capacities) and loans from EFSE (with 49% invested in agriculture and 19% in trade) and 4640 EUR for the commercial bank operating on the MSMEs market at the time of the contract with EFSE (its internal strategy has now changed; the bank should focus on the upper segment of SMEs and therefore increase its average sub-loan size. However, the requirements attached to EFSE credit line, i.e. maximum sub-loan size equal to 100 000 EUR, have to be respected). (Source: Interviews in Moldova)
- In Georgia, NIF grant C-shares in EFSE have contributed to attract private A shares at fund level and make FX funds available for MSMEs. But FX resources were not the main issue for FI (banks are liquid and highly dollarized). Besides, the main PFI was already targeting MSMEs, and blending funds have not impacted its strategy toward this segment. (Source: Interviews in Georgia)

JC 9.9 PSD-related blended projects are likely to deliver development results

I-9.9.1 The (final) beneficiaries targeted at design stage have been reached

Illustration of detailed facts and findings at project level:

BANK/EFSE/MC #36 (2009-KfW-RC): the overall 2014 average sub-loan amount disbursed was EUR 6,917, which is below the microfinance threshold for the EFSE region (EUR 20,000) and points out that the Fund clearly reaches less privileged market segments. Furthermore, during 2014 the agricultural sector has received the largest share of the amounts disbursed (31%). (Source: KfW, Annual narrative report of 2014, 2015)

I-9.9.2 & I-9.9.3 Effective use, by the beneficiaries, of the knowledge and expertise transmitted with blended projects & Effective use, by the beneficiaries (including the poorest communities), of the outputs achieved with blended projects

Illustration of detailed facts and findings at project level:

The two projects under review are still ongoing with end dates in 2019 (#12) and 2021 (#36).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the 2014 Annual progress report indicates that in the case of the Georgian Agricultural Finance Facility, the performance of the 3 MFIs benefiting of TA have undergone a very satisfying development. Thanks to the ongoing support by the consultants, these institutions have enhanced their internal trainings and implemented more efficient processes which allowed them to let their agricultural portfolio constantly grow (with PaR <5%). Furthermore, the number of agricultural clients of these MFIs

has constantly risen over the course of the programme, from 2012 up to 2014. (Source: 2014 Annual Progress Reports on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility", 2015). In Moldova, the company (BT Leasing) has set the bases for the first call center in leasing in Moldova to reach SMEs (53 000 SMEs in the country, about 25 000 are eligible for finance). (Source: interviews with financial intermediaries in Moldova)

BANK/EFSE/MC #36 (2009-KfW-RC): no specific information is provided in the documentation on the effective use, by the beneficiaries, of the knowledge and expertise transmitted with the project, as well as of the outputs achieved with the project. In Moldova, EFSE's end beneficiaries have mentioned during the field visit that they made investments in energy efficiency equipment thanks to the loans received from partner financial institutions. They also mentioned as benefits of the loans access to university for their kids and improvement of family revenues. (Source: Interviews in Moldova). In Georgia, end beneficiaries have mentioned notably that thanks to the loans, they have been able to invest in better business conditions (larger and better location of the business for instance). (Source: Interviews in Georgia).

I-9.9.4 & I-9.9.5 Review of the results (or likely results to be) achieved with blended projects and of their potential development impact & Review of other contributing factors to observed/potential development results

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): Available information in project documentation does not go beyond outputs. Besides, the project continues until 2019, hence it is too soon to observe results.

BANK/EFSE/MC #36 (2009-KfW-RC): Available information in project documentation does not go beyond outputs. The project should end in 2021 (according to the delegation agreement). An impact evaluation on EFSE was ongoing early 2016, with indicators such as gender and number of jobs created being measured. But no study was available for Moldova. EFSE has contributed to strengthen the financial sector of the country in general, and microfinance sector in particular. As development impact, end beneficiaries met in Moldova have mentioned access to university for their kids, improvement of family revenues, and investment in energy efficiency equipment. Gender is not targeted on regular basis. (Source: interviews with IFI, financial intermediaries, and MSMEs managers)

JC 9.10 Blending projects are likely to contribute to job creation in partner countries

I-9.10.1 Comparison of the attained output, outcome and impact levels of blending projects in terms of expected job creation

Overall findings:

The review of the portfolio of blending projects shows that:

- Job creation was generally not part of the expected objectives to be reached. Five out of the 21 projects reviewed aimed to impact positively on the creation of jobs and new businesses. Three of them (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26 and ENER/O.SolarPlant/MA #15) set quantitative targets to be reached in terms of temporary and/or permanent job creation. Monitoring reports generally do not report on job creation.
  - ENER/C.Intercon/NA-ZM #1 was expected to create 1000 person-years of employment during construction. Employment effects occurred during the construction phase but are not quantified in the 2015 final project evaluation.

- For TRANS/Corridor/MZ #26 Rail component, the operation and maintenance of the Sena line was expected to employ about 800 persons of whom roughly half will be new recruits. EIB progress reports do not report on jobs created.
- ENER/O.SolarPlant/MA #15 expected to create around 3 000 staff years of temporary jobs during construction, and around 90 permanent new jobs for the operation of the project. The field visit shows that effects on job creation have been below expectations with around 2,000 staff employed at the peak of the construction phase and 62 permanent staff to run Noor I. Besides, the project targeted a level of local content of 30% of the plant capital cost to help stimulate private sector and create jobs. This level has been reached.

- During the field visits, the team could notice that several projects (7 in total: TRANS/PublicTrans/MD #10, WASH/IWSP/EG #14, TRANS/RoadRehab/MD #29, ENER/PowerTrans/EG #31, TRANS/PAPN/CG #42, ENER/Env.Credit lines/REG #43-44, Benin-Togo Power Rehabilitation) led to temporary job creation during the construction phase as well as to permanent job creation. Effects in terms of job creation could not be systematically quantified by the people interviewed. When quantified, they ranged from 5-10 until 300 temporary jobs. TRANS/PublicTrans/MD #10 led to the creation of 12 permanent jobs for assembling the buses in Chisinau.

Illustration of detailed facts and findings at project level:

Effects on job creation for the projects that envisaged it at design stage:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The project was expected to create 1000 person-years of employment during construction. Source: EIB, internal appraisal report, 2008. 'Employment effects constituted a positive socio-economic development'. Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015.

TRANS/Corridor/MZ #26 (2008-EIB-IRS): The project is expected 'to improve the populations' mobility via the railway and should also impact positively in the creation of jobs and new businesses along the corridor (plus the jobs created during the works)'. (Source: EIB Project fiche). The ITF application form further details for the port component that 'a substantial part of income generation in Beira, and along the transport corridor, stems from the port's activities and from the transport of cargo up and down the corridor's highway, railway and oil pipeline. The major employers of the region are companies in the field of transport and connected services. Moreover, the transport activities, in turn, serve as the economic foundation for a multitude of major and minor companies that supply goods and services to the main enterprises in the transport sector.' (Source: EIB, ITF Application form). There are no quantitative targets set in terms of job creation; it's an overall expected impact rather than a focus as such of the project. The EIB appraisal report further notes that 'the operation and maintenance of the Sena line will employ about 800 persons of whom roughly half will be new recruits and the balance transferred from CFM who may otherwise have been made redundant. The dredging of the Beira access channel will not generate directly additional employment during operation. However, substantial increase of employment is expected in the port and in the hinterland due to improved business conditions.' (Source: EIB appraisal report).

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): the 2011 EIB Appraisal report indicates that 'the project is expected to create around 3 000 staff years of temporary jobs during construction. Operation of the project is expected to create around 90 permanent new jobs.' Moreover, the project fiche indicates that the project design intends to promote local

manufacturing. 'MASEN (the *financial intermediary taking over a coordination role in the project)* is targeting a level of local content of 30% of the plant capital cost which will help stimulate private sector and create jobs. In the area around Ouarzazate, local authorities and the population will benefit from the economic and social development opportunities that the project can bring, particularly as regards playing a catalyst role in the development of this semi-desert region'. This 30% target has been reached. The 2013 EIB progress report indicates that the project has had positive effects providing direct development prospects, 'such as the creation of local employment opportunities' but 'working conditions are unequal'. (Sources: EIB Project fiche and EIB Project progress report, 2013). The site visit shows that 62 people are permanently employed to run Noor I; and that up to 2,000 temporary jobs were created during the peak of the construction phase. (Source: Interviews in Morocco).

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): the project is expected to impact favourably on economic growth and employment, but no quantitative target has been set. (Source: EBRD, Contribution Request nr. E5, 2010). Progress reports do not provide any information about project's impact on employment. (Sources: EBRD, 2011 to 2014 Annual Progress Report on Neighbourhood Investment Facility (NIF) "The Eastern Partnership ("EaP") SME Finance Facility").

BANK/EFSE/MC #36 (2009-KfW-RC): MSMEs are considered as a significant alternative to unemployment associated with the collapse of public sector enterprise employment, and as a training center for entrepreneurship. They are therefore of key importance for the ENR economies, in generating employment and income. With the participation of up to 100 PFIs and 150,000 benefitting MSMEs, the project is expected to provide an important stimulus to the local economies, both in rural and urban areas, and provide demand and secure employment for up to 1 million. Although poverty alleviation is not one of the explicit objective of the project, the documentation mentions that with its expected impacts, the project would actively support poverty alleviation in the ENR. (Source: KfW, ENBF funding proposal to the EU, no date). Progress reports do not provide any information about the impact of the project on employment. (KfW, Annual narrative reports of 2011 and 2014; EFSE, Annual report 2010 and 2013). Interviews with the partner FI in Moldova show that the FI has created jobs thanks to the increase of its activities in the country (from 8 employees in 2008 to 18 employees now). Thanks to the SME FF guarantee mechanism, the partner FI is willing to encourage women entrepreneurship. (Source: Interviews in Moldova).

Effects on job creation observed during the field visit though not envisaged at design stage:

TRANS/PAPN/CG #41-42 (2009-AFD-TA and IRS): the interviewees met during the site visit indicated that jobs have been created (users and subcontractors of the port), but they could not quantify this. (Source: Interviews in Congo).

TRANS/RoadRehab/MD #29 (2008-EBRD-Grant): During the project, temporary jobs have been created (about 88 units), and after its implementation permanent jobs have been created in small markets, shops, bars alongside of the road. (Source: Interviews in Moldova)

WASH/IWSP/EG #14 (2008-KfW-Grant): Apart from short term employment during construction there are now an additional 5-10 work posts including technical staff in the newly established laboratory.

ENER/PowerTrans/EG #31 (2010-EIB-TA/Grant): During the construction period of the Abu Ghaleb sub-station, temporary jobs were created but this has also caused community conflict as contractors could not use all the labour available.

TRANS/PublicTrans/MD #10) (2010-EBRD-Grant): the project design did not envisage effects in terms of job creation. The project has avoided that the Transport Company fire people due to its obsolete fleet (on the contrary, jobs have been maintained and the salaries have increased). Trolley buses are now assembled in Chisinau; 12 permanent jobs have been created for assembling the buses in Chisinau. (Source: Interviews in Moldova)

ENER/Env.Credit lines/REG #43-44 (2010-AFD-TA): the project design did not envisage effects in terms of job creation. The project generated sustainable employment (at Strathmore University for instance, the MSE owned by a former student is in charge of cleaning the solar installation) and temporary jobs (at KTDA/Gura hydro power plant, just about 300 people were employed at the peak of the construction period and currently 150 are still working at the site. At least 8 permanent employment opportunities will be created on commissioning of the project). (Source: Interviews in Kenya)

Benin-Togo Power Rehabilitation project (2009-EIB-IRS): The project created temporary jobs during the construction phase. Better energy supply in both countries in the coming decennia should contribute (sustainably) to economic growth and employment. (Source: Interviews in West Africa)

I-9.10.2 Level of sustainability of the jobs created, after closure of the projects

Illustration of detailed facts and findings at project level:

ENER/C.Intercon/NA-ZM #1 (2008-EIB-IRS): The permanent additional employment effect of the project was expected to be insignificant. Source: EIB, internal appraisal report, 2008. Employment effects occurred primarily during the construction phase (as initially anticipated) and were not maintained afterwards. Source: Integration, Ex-post evaluation of the Caprivi-Link Interconnector project, 2015.

TRANS/Corridor/MZ #26 (2008-EIB-IRS): EIB project progress reports do not report on job creation.

ENER/O.SolarPlant/MA EIB #15 (2011-EIB-Grant): NA, the project is not closed.

IND/SME Facility/REG #12 (2010-EBRD-IG/TA): NA, the project is not closed.

BANK/EFSE/MC #36 (2009-KfW-RC): NA, the project is not closed.

Annex B3. Country notes

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This chapter contains 11 country notes that are the field missions' synthesis conducted for this evaluation:

1. Country note – Armenia
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8. Country note – Morocco
9. Country note – Mozambique
10. Country note – Namibia
11. Country note – West Africa (Benin, Togo and Ghana)

The structure of the country note changes slightly from one to another but in general it includes the following information:

1. Introduction
2. Country context:
    - Overall description of country political, legal, and development context
3. Data collection methods used (including limits and possible constraints).
4. Description of EU strategic priorities for the country, overview of blending activities
5. Field mission findings
    - Findings against each EQ at JC level noting contribution of specific projects
    - Analysis of the main issues related to the strategic relevance, the added value of blending and the results achieved
    - Presentation of information confirming or not confirming the desk phase hypotheses.

Annexes:

- The list of people interviewed;
- The list of documents consulted;
- The list of the projects and programmes specifically considered;
- Statistical data and any database produced;
- Any survey results (survey type 3);
- Pictures.

Case study note – Armenia

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Abbreviations

ADB	Asian Development Bank
AFD	French Development Agency
CIP	Communal Infrastructure Project
E5P	Eastern European Energy Efficiency and Environmental Partnership
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
EQ	Evaluation Question
EU	European Union
EUD	European Union Delegation
IFC	International Finance Corporation
IFI	International Finance Institution
IMF	International Monetary Fund
JC	Judgement Criteria
KFW	Kreditanstalt für Wiederaufbau
MBBG	Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points
MSW	Municipal Solid Waste
NIF	Neighbourhood Investment Facility
NMC	National Mortgage Company
PPP	Public Private Partnership
R2E2	Renewable Resources and Energy Efficiency Fund
SCADA	Supervisory Control and Data Acquisition
SME	Small Micro Enterprise
SREP	Scaling up Renewable Energy Program
TA	Technical Assistance
TOR	Terms of Reference
UNDP	United Nations Development Programme

1 Introduction and context

1.1 Development cooperation

a) EU relations with Armenia are regulated by the EU-Armenia Partnership and Cooperation Agreement (signed in 1996, in force since 1999), which allows for wide-ranging cooperation in the areas of political dialogue, trade, investment, economy, law-making and culture. The inclusion of Armenia as one of the countries of the Southern Caucasus in the European Neighbourhood Policy (2004) and the Eastern Partnership (2009) has demonstrated the EU's willingness to move its cooperation with Armenia beyond the terms of the Partnership and Cooperation Agreement. At the Eastern Partnership Summit in Vilnius in 2013, the EU and Armenia agreed on the need to update the EU-Armenia Action Plan and build upon the existing framework for cooperation. Since Armenia joined the Eurasian customs union in 2013 the relations between EU and Armenia are more complicated but the earlier joint work on reform programmes continues.

EU technical and financial cooperation supports Armenia's wish for a close relationship with the European Union and helps the country's efforts to develop and implement strategic plans. The total EU assistance to Armenia amounts to over € 500 million since 1992 and the annual support has been growing progressively over the years. In all their joint activities the European Union and Armenia aim to:

- Promote democracy and good governance
- Strengthen energy security
- Promote public sector reform and environment protection
- Encourage people to people contacts
- Support economic and social development
- Offer additional funding for projects that reduce socio-economic imbalances
- Increase stability

The EU currently supports reforms in the areas of justice, democracy and human rights, vocational educational and training, migration, environment and nuclear safety, among others. Armenia remains the second largest per-capita recipient of EU funds in the Eastern Partnership.

b) Armenia's development cooperation with other partners focuses mainly on transports, support to private sector and infrastructure.

- EIB's portfolio in Armenia is divided into transports (54%), credits lines (24%), water and sanitation (14%), energy (5%) and solid waste management (3%)[1].
- EBRD is mainly investing in financial institutions (54%), infrastructure (22%), energy (15%), and industry, commerce and agribusiness (8%)[2].
- In Armenia, KfW focuses on energy (majority of funds, notably in promotion of renewable energies), financial sector, water supply, and nature conservation[3].
- AFD's main sectors of intervention in Armenia are: urban development, infrastructures with a particular support to renewable energies, and private sector development[4].

1.2 Methodology and projects selected

Armenia was selected for a field mission because there are a number of major blending projects that have been completed or are close to completion. The cooperation in Armenia used a range of modalities including budget support, project support as well as extensive blending especially in the water, energy (finance), transport and solid waste management sectors. Armenia also provides an example for the wider evaluation of how blending projects operate and contribute in transition countries.

The country mission started with a review of the entire desk based information and the generation of a list of relevant stakeholders. Almost without exception it was possible to meet all the stakeholders identified. Both EU delegation officials and national partner officials working on the same operation were interviewed and where possible more than one national partner was involved or participated in the interviews. The interviews were in some cases supplemented by telephone when further information was needed. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study. A field visit was made to the relevant sites for the 2 main projects where there were completed or partly completed works and where possible a short survey of beneficiary viewpoints was made (see Annex D).

The evaluation focussed on 3 main projects that were among the first projects developed under NIF in Armenia and part of the desk sample:

- Yerevan metro rehabilitation phase 1 and 2 (2010- 2015) - a Euro 33 million investment (over the 2 phases) led by EBRD with a NIF grant of Euro 5 million for each of the two phases (total of EUR 10 million). Phase 1 is complete and phase 2 is nearly completed. A third phase is under preparation. (TRANS/ MetroRehab/ AM)
- Armenian small municipalities water project (2012-2015) – a EUR 20.8 million investment led by EBRD with a NIF grant of Euro 7.6 million. (WASH/SMWP/AM)

1 EIB website, 31st of March 2016 ("Finance contracts signed - Armenia") – See Annex C

2 ERBD website, 31st of March 2016 - See Annex C

3 https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Europe/Armenia/

4 AFD website, 8 April 2016

- Kotayk solid waste management project (2011-) – a Euro 8.5 million investment led by EBRD with a NIF grant of Euro 3.5 million and an addition Technical Assistance (TA) of Euro 1.51 million provided through EBRD. (WASH/KotaykSW/AM)

Meetings were also held with representatives of more recent projects including:

- Communal Infrastructure Project (CIP) (2013-) – a multi-million Euro investment led by KFW with a NIF grant of Euro 15.4 million
- Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points (MBBG) – part of the North-South Transport Corridor project (2013-) – a Euro 43 million investment led by EIB with a NIF grant of Euro 12 million
- Social housing and energy efficiency – a Euro 10 million investment led by AFD with a NIF grant of Euro 1 million for technical assistance and grant co-financing for energy efficiency loans
- Yerevan Municipal Solid Waste Landfill construction and close-out of the old Nubarashen Landfill. With EUR 8 million from EBRD and EUR 8 million from EIB for investment loan, and EUR 8 million grant from NIF.

2 Conclusions

2.1 Results

There is evidence of physical results and environmental benefits and although there has been a contribution to wider development not all opportunities have been harnessed.

- Physical results – the water sector project has rehabilitated infrastructure and improved services for 17 municipalities with waste water treatment in two of them. The works inspected are of good quality and being maintained. The waste treatment plants follow the technology choice of earlier investments through the World Bank and others. The waste treatment plant appears as an expensive solution although the strategy of focusing on high quality mechanical treatment only has merits. The Metro rehabilitation works have also been successfully completed and are operating as intended. The border posts under the MBBG project are nearly in completed and reported as satisfactory by the executing agency, UNDP. Like a lot of the infrastructure projects there appears to be an over specification and the principles of minimum costing do not appear to have been applied – although the national partners are able to argue strongly for the solutions chosen. Some 16 grants for energy efficiency housing loans have been completed indicating significant energy savings; work on some 250 further loans are in progress.
- Environmental results – the social housing and energy efficiency project, and the water and metro projects have resulted in energy savings. In the case of water these are clearly reported on and benchmarked on the utility website. In the case of the energy efficiency projects, the program software tool automatically calculates and reports the energy savings and reduced greenhouse gas emissions. The waste water treatment plants are reducing the pollution in the rivers. The water project has reduced water losses and associated pumping energy use.
- Wider development results – although not yet complete the MBBG project is likely to deliver security and trade benefits. The water project, although not taking a leading role, has contributed to consolidating a market delivery approach in the sector. Both the water and metro projects have introduced greater elements of consumer orientation and

commercialisation in public utilities. However, the targeting at town level has not been as pro-poor as the later CIF project which targeted villages. The projects have tended to support rollout of accepted approaches rather than engage in transformative change, where transformative change was attempted such as in the solid waste management sector, the project came too early and before the policy environment was sufficiently in place.

2.2 Added value of blending

There have been contributions to policy reforms but at a modest level given the volume of loans and grants. None of the projects are in contradiction with government policy; their contribution has been to support current plans rather than develop new policies. The metro project did lead, through conditionality, to significant tariff and labour productivity increases. The projects did not rigorously assess the relevance and credibility of national policy and strategies. In the case of the Koytak project this has led to the project being advanced before the enabling environment was mature. The blending projects did not operate in the EU focal sectors of cooperation and did not benefit from synergy in terms of advancing policy dialogue. There could have been a greater synergy with the evolving national policy had there been stronger involvement of the EUD in the policy dialogue with the government stakeholders. The blending element could have had a stronger impact if coupled with public outreach and communication.

The benefits of coordination and the reduction of transaction costs has been disappointing in practice at least seen from the national partner viewpoint. For example, different IFIs in the waste sector have not been able to coordinate and bring one voice. Internal IFI and the NIF approval procedures have not been coordinated meaning in one case that commitment fees are outstanding for a loan that is not yet operational (e.g. Metro). Differences in government, executing agency and IFI procurement procedures, although often minor in detail, can lead to long delays e.g. for the procurement of scanning equipment for the MBBG project. According to the EU delegation some of the transaction costs and delays could have been reduced had the EU delegation been involved in the projects' conception phases.

The project grants led to delivery of high quality infrastructure and paid attention to operation and maintenance - although cost recovery and sustainability of future budgets are a weaker area. The projects have developed capacity to operate and maintain the water and waste water facilities as well as the metro. The transfer of technology and the capacity to replicate such projects is less evident as there has been a reliance on outsourcing to foreign firms.

2.3 Strategic relevance

The 3 main sample projects addressed a special challenge which, to a varying degree, justifies the use of a grant:

- The small municipalities water projects had a demonstration effect through the waste water treatment plants and the leakage reduction on water supply. The grant subsidy also allowed the utility to address regional disparities in access to water services and to bridge the gulf in investment that occurred since the collapse of the Soviet Union. The rehabilitated infrastructure enabled significant service improvements to take place. The replicability prospects however are not assured as the institutional progress on cost recovery in the sector is not yet secured. The case for the use of grants for the waste water treatment plant is greater than for town water supply. The CIF project which directs grants to water supply at the village level addresses geographic disparity more directly than the small towns project.
- The metro project grant was able to mobilise external expertise not available in Armenia to design a prioritised programme of rehabilitation. It could also be argued that the grant, through conditionality, facilitated institutional advances such as the doubling of the tariff and reduction in over-manning. Other than this effect, the investment grant expanded the scope of the works rather than directly addressing a special challenge.
- The Kotayq solid waste management project was designed to demonstrate the applicability of EU standards for landfills. In principle the concept had the potential to use a grant element to address an important challenge. However the project design did not take into account that the enabling environment in terms of strategy and stakeholder consensus was not in place and the project has not yet started. The particular financing scheme of allowing the municipality to become the sub-borrower is innovative and potentially risky but was found too cumbersome and difficult to implement and eventually it was abandoned.

Armenia is an example of a country where blending has a potentially strong strategic relevance. Although not formally under the IMF debt sustainability framework, Armenia is on the edge of its debt capacity. It is disadvantaged by being land locked with closed or restricted borders to all its neighbours bar Georgia and Iran, which itself is under trade restrictions. The EU association process started a government owned reform process that slowed but not entirely stalled when the Armenia chose not to join. In these circumstances, there are prospects for blending projects to support and provide additional incentives to pursue the reforms. Blending, by supporting nationally important infrastructure helps boost economic performance beyond what the debt carrying capacity can sustain and sends a message to an increasingly vulnerable Armenia that they are not alone. For this effect to work, visibility is also important.

The proportion of grant is dominated by the policy to comply with IMF-level conditions: the investment grants contribute mainly to increasing the scope of work rather than maximising a catalytic effect. There appears in the words of the EU delegation and others to have been an "open bar" for grants. As there is no quota the IFIs and government borrowers have no incentive to reduce the use of the grants. Access to the grants is on a first come first serve basis and is in practice unrestricted. Only the vigorous application of criteria from the NIF supported by in-depth assessment by the delegation is likely to secure efficient use of the grant. In the case of Armenia, at least in the early years, this has not been the case.

Projects have some evidence of: a catalytic effect, a bridging of market failure, an unblocking of finance, a social or environmental benefit. But only rarely are these effects in proportion to the size of the grant. The government's policy of requiring a minimum requirement of 30% grant sets a very high standard because to justify that level of grant, the catalytic effect would need to be considerable. The social housing and energy efficiency project (with only 5-10% grant) and the R2E2 and SREP project show that a catalytic effect in proportion to the grant is viable. It is not possible from the information made available to exclude the possibility that the investment grants served to shorten or ease negotiations with the government and/or make the financial conditions of the particular IFI more competitive and attractive than other available development finance.

3 Findings across the evaluation questions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)

- The 3 projects examined in detail contributed to addressing a special challenge which could provide arguments to justify the use of a grant to a varying degree: (JC 1.3, interviews, site visit and project documents)
  - The Armenian small municipalities water project through the 2 waste water treatment plants has a demonstration effect for the use of simple and robust primary treatment for small towns in environmentally sensitive areas that represents a superior and radically different technology from the earlier now defunct soviet era systems[5]. The grant subsidy also allowed the utility to address regional disparities in access to water services and to bridge the gulf in investment that occurred since the collapse of the Soviet Union. The rehabilitated infrastructure enabled service improvements to take place. The replicability prospects however are not assured as the institutional progress on cost recovery in the sector is not yet secured. The case for the use of grants for the waste water treatment plant are greater than for town water supply. The CIF project which directs grants to water supply at the village level more directly addresses geographic disparity.
  - The metro project grant was able to mobilise external expertise not available in Armenia to design a prioritised programme of rehabilitation. It could also be argued that the grant through conditionality facilitated institutional advances such as the doubling of the tariff and reduction in over-manning. Other than this effect, the investment grant expanded the scope of the works rather than directly address a special challenge.
  - The Kotayq solid waste management project was designed to demonstrate the applicability of EU standards for landfills. In principle the concept had the potential to use a grant element to address an important challenge. But the project design did not take into account that the enabling environment in terms of strategy and stakeholder consensus was not in place and the project has not yet started. The particular financing scheme of allowing the municipality to become the sub-borrower is innovative and potentially risky.
- Armenia, although not formally under the IMF debt sustainability framework is on the edge of its debt capacity. It is disadvantaged by being land locked with closed or restricted borders to all its neighbours bar Georgia. The EU association process started a government owned reform process that slowed but not entirely stalled when the country chose not to join. There are prospects for blending projects to provide the means and an additional incentive to pursue the reforms. Blending by supporting nationally important infrastructure helps boost economic performance beyond what the debt carrying capacity can sustain and sends a message to an increasingly vulnerable Armenia that they are not alone. For this to work, visibility is also important. (JC 1.1, interviews with Ministry of Finance, EUD, EBRD and others)

[5] Questions have been raised about whether the technology specified represents a minimum cost solution and is too expensive and "high-tech" for the circumstances.

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	Confirmed: The geo-political situation that in Armenia is evidence that blending, if well designed, can assist in difficult transition phases.

Quotes:

- It is hard if not impossible to separate the impact of the grant. The grant makes the project more attractive. It was the NIF grant that made the loan interesting. Otherwise we would have gone to the ADB. (government agency)
- The IFI find a project, the government always says yes. We apply for a grant. What we propose always gets approval. That is the whole model. That is how it worked. Now, it is different. (IFI)
- They pick the shortest easiest route to making the loan (project)
- It is unfortunate that some government agencies and IFIs perceive grants as taking the place of loans. We cannot accomplish much with grants – but they can pave the way (Government agency)
- Yes, this project would have gone ahead without the grant – it just would have been smaller. (Government agency)

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)

- The blending projects examined all supported and were well aligned with EU policies. (JC 2.2; interviews with EUD, national partners, IFIs)
- The blending projects made efforts to align with national policies and strategies but were not in all cases based on a full assessment of the relevancy and credibility of government plans.
  - The municipal water project and the CIF loyally follow and support the national strategy for providing services through national utilities. The projects selected are part of a prioritised investment plan.
  - The policy and planning framework for the Metro project was incomplete. A number of studies and strategies exist (e.g. the transport master plan (2011) supported by ADB) which generally support the actions planned by the blending project. The project itself developed a number of feasibility studies at different phases and subsequently a number of options for extended metro development have been compared. Nevertheless a more detailed encompassing strategy for urban transport is absent although after delay there is now a process supported by ADB for developing a strategy which should be finished in mid 2017.
  - The Kotayk solid waste project was developed in advance of a consensus on the strategy for solid waste management and without full stakeholder involvement (e.g. of the regional administration and environment ministries). The political and enabling environment was not fully mature. This is one of the major reasons for the long delays.
    (JC 2.3; interviews with EUD, national partners, IFIs)

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	Partly confirmed: No contradictions were found. Some projects were better aligned than others.
That the training has been sufficient	Not confirmed: As mentioned below the application of criteria even for projects approved by the NIF did not reflect the available local information and knowledge which in some cases could have led to beneficial changes in the design.
That IFIs and EUDs are clear on the criteria	Not confirmed: There is evidence that the EUD and IFIs were (at that time) not entirely clear on the onus of using grant funds where they could serve a special purpose that could not be covered by grant. The EUD was not involved in project design and conception phases and was approached only after the project concept was mature. The situation now is different and there is much greater clarity over the criteria.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)

- Armenia has chosen to operate under IMF-level conditions which in Armenia's case means that on average the annual loan agreements need to demonstrate a minimum level of 30% concessionality. This factor dominates the process of deciding on the grant size especially where, as seems to be the case, there is surplus of available development finance and an emerging competition between the development banks. According to the Ministry of Finance, projects with less than a 30% level of concessionality are unlikely to be approved unless they are for areas that few donors are willing to support e.g. nuclear power. If such an exception is made, then other projects in the overall government portfolio are under pressure to deliver beyond 30% concessionality so that the overall nationwide grant element is within the 30% threshold or more. Thus, considerable grants are needed if the project is to go ahead and the leverage tends to be low. It should be noted that the World Bank and ADB loans have concessionality levels that are in the region of 45% calculated using the IMF methodology - without NIF grants the EU IFIs would be considerably less than this amount.
- Many projects have levels of grants above 30%. The arguments advanced for this level of grant (beyond meeting IMF-level conditions) are not clearly stated and very few people are able to provide an explanation. In many cases the main effect of the investment grants is to extend the scope of works e.g. the North-South corridor (financed by EIB and ADB) where the Euro 6 million mainly serves to lengthen the tranche of road that can be constructed. In some cases such as the metro project, it is plausible that the grant could also have been instrumental in convincing the government to raise the tariff.
- There appears in the words of the EU delegation to have been an "open bar" for grants. As there is no quota the IFIs and government borrowers have no incentive to reduce the use of the grants. Only the vigorous application of criteria from the NIF supported by in-depth assessment by the delegation is likely to secure efficient use of the grant. In the case of Armenia, this has not been the case. In summary, the lack of assessment (or rather not always most efficient selection criteria applied, too much focus on the so called "leverage" only looking at the financial ratio and not the other aspects) made by the EC (delegation and HQ) has allowed the IFI to easily access EU NIF grants without further scrutiny or conditions attached to the funding. Projects have some evidence of: a catalytic effect, a bridging of market failure, an unblocking of finance, a social or environmental benefit. But only rarely in proportion to the size of the grant. A minimum requirement of 30% grant sets a very high standard for achieving a proportional catalytic effect. But this is not impossible as the social housing and energy efficiency project (with only 5-10% grant) and the R2E2 and SREP project shows. Developing the demand side by raising awareness of energy efficiency and environmental aspects are areas where scarce grant sources could potentially catalyse change and add value.

▪ It is not possible from the information made available to exclude the possibility that the investment grants served to shorten or ease negotiations with the government and/or make the IFI financial conditions more competitive and attractive than other available development finance. (JC 3.3; interviews with EUD, national partners, IFIs)

Desk hypothesis	
Assembling the financial package is pragmatic as well as quant driven	Not confirmed:
Target leverage levels should be implicit in grant request	Not confirmed:

Quotes:

- The ADB loan terms are cheaper than the EBRD but with the grant, the EBRD is comparable. (Government agency)
- Why do we need the grant? Well, it is always nice to have a grant. (government agency)
- There is a long distance to the NIF in Brussels – it was an open bar for the IFIs. That is why there are so many projects in Armenia. EUD)
- Please borrow from us – we also have a grant (government agency)
- If we ask – why do you need a grant? – we cannot answer. We simply cannot answer, because there is not answer. (project? Government agency)
- Why the amount of the grant? Frankly we don't know. It is an ex-post calculation we don't know why. (project)
- Have you ever asked for a smaller grant? No, why? The more the better. If it is more than 30% we are happy (Ministry of Finance)

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
▪ The instruments of investment grant and TA were applied appropriately (JC 4.1 and 4.2)
▪ The TA has been partner owned, demand driven and results orientated. The national partners are highly satisfied with the TA provided. For the small municipalities water project the TA provided for the PIU (other than for direct design and construction supervision) was not deemed necessary by the utility as they had capacity in place. (JC 4.1,4.2; interviews with national partner)
▪ Generally across the different projects, the TA requirements were in proportion to the needs and the scope of the TOR. An explicit capacity development strategy is not evident and reliance is placed on learning on-the-job. It is not clearly documented what residual capacity will be left with the national partners. For the infrastructure projects, much of the TA has been used in an outsourcing sense to develop studies, designs and make technical inputs which it is unlikely that the national partners will take on (or need to take on) as core duties. (JC 4.1,4.2; interviews with national partners and IFIs)
▪ The investment grants as mentioned elsewhere were not fully optimised in terms of achieving a catalytic effect or addressing a special challenge that could not be addressed with loans alone.

Desk hypothesis	Evidence
TA was partner owned and demand led	Confirmed. There is strong evidence that the TA for the small municipalities water project was owned by the partner as there were changes and reduction in scope initiated by the national partner where overlap was found (e.g. the corporate development plan part of the TA was eliminated and the resources used elsewhere).
Partner informed and took part in choice of instrument	Confirmed, although in many cases the choice of instrument was obvious and the main question was the amount to be provided as TA which was usually a negotiated item.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)

The 3 completed projects analysed in detail leveraged some degree of policy reform either by reinforcing policy dialogue, triggering development of improved strategic vision by the government, or contributing to the enforcement of the policy reform initiated by other donors/IFIs.

- The Kotayq Municipal Solid Waste (MSW) Improvement Project raised concerns about the need for harmonizing an individual community MSW management solution with a country-wise strategy in this sector. Another IFI supported the development of the Strategic Development plan, Road Map, long-term investment Plan for Solid Waste Management in Armenia, which supported the technical solution offered by the project. Concurrently, the project has attempted to create the first pilot experience of lending directly to the municipality, which, if successful, could be replicated. While this has resulted in delays with the project, they triggered important discussions and policy dialogue for the sector and the overall IFI lending schemes. The IFI eventually abandoned this scheme switching to a PPP scheme with sub-lending to a waste collection company to speed up the process and mitigate risks voiced by the government (JC 5.2. interviews with the national partner- Ministry of Territorial Administration and Emergency Situations, EUD, IFI).
- The Armenia Small Municipalities Project aimed to re-enforce the new water sector policy which was developed and adopted with support from other donors. The project supported the policy of public-private partnership and a commercialised corporate management approach. The project design however did not address continued regulatory reform, whereby the tariffs would increase to allow debt service and cost recovery. Initially there was a corporate development aspect to the TA, which was later withdrawn as it overlapped with what was already underway by donors/IFIs. Nonetheless, the Government has a plan of further restructuring the water supply sector in 2017, and the lending and grant support this transition. Another initiating project in the water sector – Yerevan Water Supply Improvement Project – has foreseen effective regulatory reform in water supply through increased tariffs which take account of debt service. The water commission has developed a credible strategy for pursuing the sector reforms and developing a set of governance and operational arrangements that are likely to lead to sustainable cost recovery in the medium term. (JC 5.1, 5.3. interviews with the national water utility, national water commission, "Yerevan –Water" municipal water utility).
- The Yerevan Metro Rehabilitation Project is within the political scope of the National Sustainable Development Plan until 2025, Urban Transport Outlook of 2011 and Holistic and Integrated Urban Transport Road Map for Yerevan for 2020 (2009). The national policy regarding metro is to maintain this infrastructure and enhance its role and market share. The project, together with others, has raised the government attention to the need for integrated traffic management. The initial suggestion from the IFI was to bundle the metro rehabilitation investments with modernization and optimization of trolleys and buses at the same time. However due to the financial burden, the municipality of Yerevan had chosen to take a phased approach. The 2nd phase of the Metro investment project had a covenant embedded by the IFI on reforming the urban transport network, which would help bring more passengers to the metro service, diverting these

passengers from less sustainable competitor modes of transport (e.g. minibuses). Pending studies are tasked to propose solutions for metro systems through intermodal connections, smart integrated ticketing and optimisation of public transport routes. The metro investments were accompanied by doubling of fare tariffs which is in line with the long term policy to commercialize the public services and gradually phase out subsidies. Similarly, the metro project was accompanied with a reduction in over-manning. (JC 5.1. interviews with the "Yerevan –Metropoliten", Yerevan municipality, EUD, IFI).

- Another transport-sector project that was reviewed (but not in detail): Modernization of Bavra, Bagratashen and Gogavan Border Crossing Points has also been implemented in conjunction with and supportive of a new policy and institutional framework in this sector. The project supports the integrated border management plan for Armenia by providing physical facilities and advice on installation of an electronic single window). (JC 5.1 Interviews with the national security commission).

Desk hypothesis	Evidence
Regulatory and institutional reforms have been implemented in the sectors supported by blended projects	Partly confirmed: for water sector the blending projects were in harmony with the ongoing but still incomplete reform in the sector. In the metro project infrastructure rehabilitation went ahead to avoid loss of a strategic and valuable asset. Reforms and wider urban transport planning was a concurrent and ongoing process. In the municipal solid waste sector the investment and blending activities appeared premature as they were initiated prior to the completion of the sectoral policy formulation. However, the project triggered healthy discussion for better streamlining of the policy, which has resulted in delayed signing. In general, most projects have or have had a policy element, which in some cases have been undertaken by (or transferred to) another donor or IFI which offered more attractive financial terms. Although there were policy level contributions, apart from the small municipalities water project there is some evidence that opportunities were missed to contribute by first systematically assessing the relevancy and credibility of policy and then addressing gaps.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

In the projects reviewed the blending contributed to improved quality of projects to varying extent.

- In the Yerevan Metro Rehabilitation project the TA provided access to high quality professional expertise in technical designs and state-of-the-art technologies (e.g. SCADA system). This was necessary as the Metro service personnel is solely qualified to operate the metro system and do not have the capacity to rehabilitate, redesign or reconstruct major works (JC 6.2, 6.4 & 6.5. interview with the Yerevan Metropolitan company, EUD, IFI).
- In the Armenia Small Municipalities Water Project blending introduced wastewater treatment in 2 ecologically sensitive communities, introduced SCADA, automation and remote control of operational units, etc. The corporate management element of the technical assistance was not deemed as necessary due to the adequate capabilities of the utility operator (JC 6.2, 6.3, 6.4 & 6.5. interview with the national water utility, Water committee, EUD, IFI, site inspection).
- The blending activity was directly involved with the design of the regional sanitary landfill with social, environmental and technical assessment. Nevertheless, the initial solution for the Kotayq Marz municipal solid waste management project has been found flawed by national and regional government counterparts and a remedy solution was proposed (to include Gegharqunik Marz in a

similar project). The technical solution is geared towards higher centralization of the waste collection and management, which will result in higher transportation costs, hence – less affordable pricing of this municipal service. Another project design issue was related to the innovative sub-borrowing by the local government, which was found to be non-viable after long debates. Instead a municipal waste management company was established, which would serve as the sub-borrower instead of the local government and act as the PPP partner. This waste management company was co-founded by 10 participating municipalities. Furthermore, the effectiveness of the methodological approach for centralization of MSW landfills set forth in the National MSW Management Plan has been debated by other IFIs and local partners due to high operational/transportation costs (JC 6.1.& 6.2. interview with the national and local government, EUD, IFIs).

- International best practices have also been clearly the benchmark for the blending of the Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points (MBBG).

Desk hypothesis	Evidence
Robust feasibility studies plus potential economic, environmental and social impacts	Partly confirmed. Projects in metro and water supply to greater extent. Project in municipal solid waste management – to lesser extent.
Detailed designs and specifications in accordance with international best practises	Partly confirmed. Projects in metro to greater extent. Fairly standard and non-innovative solutions in municipal water supply, but substantially more effective in wastewater treatment plant (although there is a concern that the technology proposed was too advanced and more suited for a large city with space constraints). For the project in municipal solid waste management, contradictory views persist among the government and among key TA providers about the technical and administrative solutions.
Effective QA and QC	Confirmed for implemented projects: e.g. SCADA systems introduced and personnel trained for water supply and wastewater system as well as metro.
Effective O&M	Confirmed for all completed projects: training facility introduced for metro, continued improvements in water supply in Armenian Water and Sewage company. e.g. SCADA systems introduced and personnel trained for water supply and wastewater system as well as metro.
Higher project quality	Confirmed for metro and water projects. Not confirmed for municipal solid waste project.

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)
Majority of the blending projects do not have an element addressing access to finance. There are only two projects with an access to finance component: ▪ The Kotayq Municipal Landfill project, which seeks to test an innovative financing solution with direct lending to the local government. Had this pilot solution been successful and replicable, it could have created a new window for other municipalities to access finance. However, the decision was made to replace the sub-borrower by the newly created waste management company in a PPP arrangement. A barrier to longer term efforts to improve the access to finance of municipalities for solid waste management is the high cost of the waste collection service in small towns, which may be at least twice that of the cost of the similar service in Yerevan community. The technical assistance for this element is of utmost importance as it may require reforming municipal budgeting regulations, which may have received insufficient attention under the project. There are concerns however that the feasibility of municipal lending and the cost of the proposed solution are far from realistic and has not been subject to rigorous scrutiny. KfW, pursuing a similar investment for two other communities, focuses on finding the lowest-cost solution possible. (JC 7.1. interview with the partner government, EUD, IFI) ▪ The NIF grant for the Social Housing Energy Efficiency Project of the National Mortgage Company (NMC) funded by AFD was not in the priority review list, but was included in the review. In this project, the blending instrument improves access to finance for low- to middle-income households through affordable lending terms and by providing a grant bonus which reduces the effective interest rate by 3.5%. The project website, designed under the blending TA element, allowed potential borrowers to use an online calculator and review loan product information prior to accessing finance. It is also noteworthy, that EBRD under the regional Sustainable Energy Finance Facility offers households loans and SME energy efficiency loans. The household loans are combined with a cash back scheme, which also aims at facilitating access to finance for residential energy efficiency improvements, which could not have been financed under normal market lending terms. (JC 7.1. & 7.2. interview with local counterpart and TA consultant)

Desk hypothesis	Evidence
Blending has increased the capacity of financial intermediaries to provide financial services	Blending provided TA to the NMC Social Housing energy efficiency project through enrolment and training of 14 participating financial institutions, developing a program website and undertaking a marketing and outreach campaign, which directly correlated with the increased number of loans from 15 to 250.
Blending has improved the capacity of borrowers to deal with financial Intermediaries	Confirmed for NMC/AFD Social Housing EE Project. Partly confirmed for Kotayq MSW Landfill, conclusion pending on the successful finalization of the sub-lending agreement and repayment of the loan.
Specific contribution to the improvement of unserved borrowers' access to finance	NMC/AFD project blending produced the web calculator, marketing and outreach campaign and trained loan officers. In the energy efficiency sector there are a number of credit lines (EBRD, NMC/AFD, IFC) which have all reported low lending levels despite the large market potential. The primary barriers for larger market uptake of the benefits of energy efficiency are unaffordable lending terms (which blending is partially addressing), as well as the low level of awareness, which blending has only had a marginal impact on through the NMC/AFD program. With the evolution of blending towards E5P for Armenia as well as the continued need for market transformation, there have been missed opportunities for blending and joint donor/IFI support to combine and streamline a more meaningful awareness and outreach campaign to facilitate energy efficiency lending and climate change mitigation through demand-side management. Current efforts are piece meal, without economy of scale and unlikely to achieve a critical mass of information or attitude change.

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
▪ The EUD has attempted to initiate donor cooperation but this has reportedly not yet resulted in concrete improvements. There are however opportunities to improve coordination as shown through the experience the Scaling up Renewable Energy Program (SREP) under the Renewable Resources and Energy Efficiency Fund (R2E2). SREP organized donor coordination in stocktaking, development of priorities, distribution of roles, solicitation of commitments and development of an investment plan with continued follow-up on implementation. (JC 8.1 interviews with IFIs, partners, SREP and EUD) ▪ There has been signs of competition between IFIs. Whilst this can be healthy there is also evidence that it has led to problems such as using the grants and loan concessions to gain business volume – although this is more a problem of earlier periods of blending in Armenia. There are also instances of projects providing grants that over subsidise such as in the field of energy efficiency investments where projects that fail to keep the same level of commercialization of the investments will create market distortion. (JC 8.1. based on interviews with EUD, national partners). ▪ Blending did bring together NIF grants with one or more IFIs per project which reduced transaction costs compared with the alternative of multiple parallel financing arrangements. But there is also evidence that the blending arrangements still impose considerable transaction costs on some projects (e.g. MBBG project pooling EBRD, EIB and UNDP procurement rules resulting in delays, parallel implementation of projects). In other cases, the asynchronous disbursement of loan and grant funding limits the ability of the project implementers to assume contracts and implement procurement which delays implementation and results in unnecessary commitment fees. Borrowers and government counterparts also commented on the slow turnaround on decisions and no-objections from the blending IFIs, which made other (non-blending) IFIs preferable given similar lending terms. (JC 8.2. based on interviews with IFIs, UNDP, government counterparts). ▪ Compliance with visibility requirements has not been directly assessed. It was noted that the Metro project was probably the best opportunity for visibility and it interacted with the public. The rehabilitated carriages have two signs in each carriage (see photo) but more could have been achieved at Metro station entrances. (JC 8.3. beneficiary office visits, site visits, interview with EUD) ▪ After the Armenian Government decided not to sign the EU association agreement, the EU decision to continue the dialogue with the country was an important step This would benefit from greater visibility to leverage political capital and support the implementation of a comprehensive harmonization package which was prepared for the EU Accession Agreement and had an ambitious reform roadmap which was not only meant to transpose EU directives but also introduce international best practices.

Desk hypothesis	Evidence
Blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs	Partly confirmed. Can be substantially enhanced.
Blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries	Did not confirm. The blending in some cases has even contributed to increased transaction costs.
Blended projects have increased visibility of EU development operations	Did not confirm. The dividends of blending were not adequately publicized, visualized and branded to ensure proper visibility.

Quotes:

- The [preparation] lifecycle of the IFIs is long, one or two years. By the time they come up with the project, it is too late. (government agency)
- Government plays one IFI against another (IFI)
- The problem of having many IFIs involved is that you have to go at the speed of the slowest (government agency)

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- Small municipalities water project:
  - The primary waste water treatment works inspected are complete and of a good standard. Although the strategy of adopting high quality mechanical treatment to avoid the more expensive secondary treatment phase is sound, the works implemented appear to be at an unnecessary high standard e.g. the mechanical treatment is highly automated and all equipment including the truck for sludge removal is very high specification (see photo) and the new administration and laboratory building is oversized. As mentioned earlier a least cost solution does not seem to have been pursued. Although there have been delays, cost over runs have been controlled. Preventative maintenance is carried out on a regular basis. Staff have been fully trained. Since Construction 6 months ago no operation and maintenance issues have arisen. The system is in use as it is connected to an existing sewerage network. There is considerable infiltration from rain and snow melt water arising probably due to historical drainage connections to the sewer network (site visit and discussions with technical staff)
  - Daily and weekly on site effluent water quality testing against a number of criteria are carried out and clearly documented (see photo). Although the primary treatment is not achieving the Armenian or lower EU effluent standards there is still a considerable environmental benefit. Monitoring of receiving water quality is not systematically being done or reported to the Ministry of Environment. Secondary use of sludge from the mechanical treatment is not yet systematic although there are reports of small amounts being provided to local farmers as fertiliser. (site visit and discussions with laboratory and other staff)
- The metro project:
  - The works were completed with delays but well within cost estimates which allowed the scope of work to be increased. Whilst it was not possible to physically inspect much of the works in the tunnels themselves the metro company and the mayor office are fully satisfied. The quality of the designs, construction supervision and construction management consultants and the outcome of the ROM monitoring missions also point to a successful completion of the high priority rehabilitation works. (project documentation, ROM and other reports)
  - Apart from internal carriage refurbishment, less vibration and noise and the provision of a washing facility of some carriages there is not evident improvement of service. The main effect has been to extend the lifetime of the metro and delay or prevent a sudden failure. (survey of beneficiaries and discussion with Metro officials)
- Social and energy efficient housing
  - The Social Housing energy efficiency project targets reduced energy use and climate change mitigation by design. The computer tool used for loan evaluation and monitoring assesses and reports avoided greenhouse gas emissions for all project types. The built-in grant bonus scheme incentivizes higher energy efficiency of the loan investments, hence – seeks higher climate change mitigation effect. The overall credit line is expected to have a direct social impact by improving

the utility affordability of the low- to middle-income households in the light of the escalating electricity and gas tariffs. (discussion with NMC)

- The North –South Transport Corridor and the MBBG projects are expected to have a positive development impact through enhanced transit of goods and trade. Although the border posts were not visited there are reports that they are over specified and pictures seem to bear this out. However, the national security commission are able to provide a rigorous defence for the level of investment arguing that larger facilities are needed as the border management tasks are more complex than before and Armenia is at a potential cross road for drug and human trafficking. (discussion with EUD and national security commission)
- A more general concern with many of the infrastructure projects (apart from the metro) is the least cost solution and does not seem to have been systematically identified and implemented. Even though the loans and projects have been subject to feasibility study, the loans and grants appear to have been used for higher specifications than needed. As a result, there is a risk that they will not have contributed sufficiently to economic growth given their cost and will have reduced the available debt space of the government. It is often in the interest of the implementing partner to encourage as high a specification as possible, particularly for sovereign loans that are repaid by the central government (or for elements that are financed by grant). In some cases, the IFI and the consultants have an incentive to support the use of high specification in order to reduce project risk and to satisfy the client. In these cases, there are not enough checks and balances to endure good value for money.

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	Partly confirmed – there is insufficient evidence that the least cost solution was systematically pursued
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	Partly confirmed - most projects have not suffered from unexpected risk factors apart from the Kotaq solid waste project.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	Confirmed – relatively few of the projects had a strong and compelling pro-poor targeting. The Community Infrastructure Project is a good example of a project that did.
Monitoring of results was uneven across projects and IFIs and often insufficient	Not confirmed – regular high quality reports are available (although not at the impact level). ROMs are available for two of the reports.

Annexes

Annex A: Persons Met and programme

Mission dates: 29 Nov – 4 Dec, 2015
Participating: Eric Buhl-Nielsen, Astghine Pasoyan
Hovhannes Avetisyan, Arsen Karapetyan

Time	Meeting	Purpose of meeting	Participants, contact info
Sunday, 29 November 2015			
	Agenda discussion, team-work, preparation for the mission, discussing the outline of the country case study and data needs, to be addressed during the field mission		
Monday, 30 November 2015			
10:00-10:50	EUD consultants	EUD in Yerevan to support policy dialogue, coordination and reforms in NIF related sectors in Armenia.	Hovhannes Avetisyan, EUD consultant Arsen Karapetyan, EUD consultant
11:00-11:50	Ministry of Territorial Administration and Emergency Situations	Kotayq Municipal Development Project discussion from the perspective of the government	Artashes Bakhshyan, Deputy Minister
12:00-13:30	ArmWater Company	Armenian Small Municipalities Water project, EBRD (including Water-waste mechanical treatment plant in Jermuk)	Patrick Lorin, CEO, 'Patrick Lorin' palr@armwater.am; Norik Gevorgyan, Director for Investment Programs Coordination; 'Norik Gevorgyan' ngevorgyan@armwater.am Lilit Buniatyan, Project Manager, IPCD EBRD/EIB/EU and KfW funded Projects lbuniatyan@armwater.am www.armwater.am
15:00-16:00	Yerevan Metropolitan Service	EBRD Yerevan-Metro project	Paylak Yayloyan, General Director, Document1956@gmail.com; Slava Mkrtumyan, Chief engineer, Armine Parsyan, Project Management Unit (Acting) 091208822 armine.parsyan@gmail.com

16:00-17:30	EU Delegation	Kick-off meeting	Ludovic Ciechanowski, Ludovic.CIECHANOWSKI@eeas.europa.eu ; John Barker, Agriculture Food, Rural Development & Environment john.barker@eeas.europa.eu ; PAPIAN Monica Monica.PAPIAN@eeas.europa.eu ; AVAKIAN David David.AVAKIAN@eeas.europa.eu
Tuesday, 1 December 2015			
9:30 – 10:30	Renewable resources and Energy Efficiency Fund (Serving as the Energy Agency)	Discussion of E5P and general EU assistance in energy sector	*Tamara Babayan, Director* *director@r2e2.am*
11:00 – 12:00	Ministry of Energy and Natural Resources, RA	Discussion of EBRD energy sector portfolio relevant to EU blending activity	Hayk Harutyunyan, Deputy Minister hh@minenergy.am
12:00-13:00	National Mortgage Company (NMC)	AFD Jerm Ojakh Social Housing Energy Efficiency Credit Line (with NIF co-financing)	Hayk Voskanyan, NMC Director Hayk Voskanyan h.voskanyan@nmc.am Vasak Grigoryan, Head of Mortgage Lending department Vasak Grigoryan v.grigoryan@nmc.am
14:00 - 15:00	KFW	Community Infrastructure Project (CIP)	Zara Chatinyan, Local Representative (environment & water projects) Zara.Chatinyan@kfw.de
15:00-16:00	Yerevan Water Supply Company Yerevan Djur CJSC, 66a, Avovyan Str., Yerevan, 0025, Armenia	Yerevan Water Supply Improvement Project (at inception phase)	Aytsemnik Martirosyan, Head of Procurement Department, Deputy Head of Project Implementation Group aytsemnik.martirosyan@yerevandjur.am Artak Malkhasyan, Judicial & Customer Service Director; Artak.malkhasyan@yerevanjur.am Artashes Aghinyan, Environmental Expert www.veoliadjur.am
16:00-17:00	Ministry of Finance	Discussion of the level of concessionality, the value added delivered to Armenia by the blending projects	*Armen Melkikyan, Head Of Dept. for Foreign Relations;* *Armen.melkikyan@minfin.am* *Larisa Harutyunyan, Senior Specialist* *Larisa.harutyunyan@minfin.am*

17:00-18:00	Yerevan Municipality	Yerevan metro project	Vahe Nikoyan, Vice Mayor Armen Harutyunyan, Head of Development and Investment Programs Division Tigran Sargsyan, Dep.Head. tigran.sargsyan@yerevan.am
Wednesday, 2 December 2015			
08:30 – 13:30	Dilijan site visit	Review of the wastewater treatment facility (twin project with Jermuk)	Sebouh Berberian, Wastewater treatment plants and water removal director sberberian@armwater.am ; Samvel Yazhyan, head of Wastewater treatment division
15:00 - 16:00	UNDP, EIB's executing agency	EIB Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points (MBBG)	Ara Ashjyan, Project Officer, Ara.ashjian@undp.org; Alla Bakunts, Democratic Governance Portfolio Analyst, Alla.bakunts@undp.org; Artashes Dabinyan, Operations Manager. Artashes.darbinyan@undp.org (Implementers (under contract with UNDP): SADE Armenia Branch JSC Ecoville llc (subsidiary of Ecoville) Blesk-Shin llc) Stakeholders/Beneficiaries: Customs Service, Ministry of Transport, MFA, etc)
16:00 - 16:50		State Water Economy Commission	Victor Martirosyan, Advisor to the Chairman, Srbuhi Ghazaryan, Legal Expert, Ashot Hyusisyan, Technical Expert +2
17:00 18:00		Ministry of Transport and communications	Gagik Grigoryan, Head of Staff, staff@mtc.com Christine Beglaryan, Acting Head of the International Relations

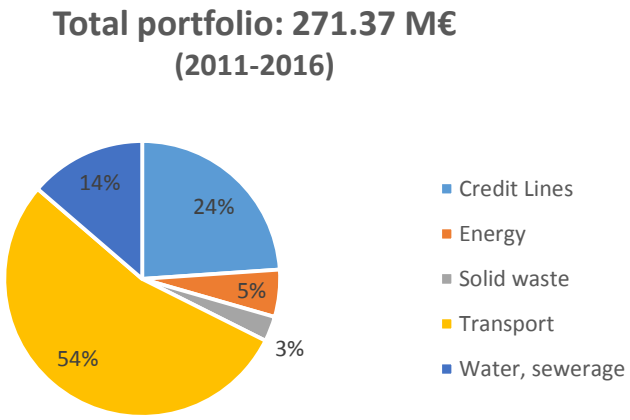
Thursday 3 December 2015			
10:00-12:00	Internal discussion, exit briefing preparation		
13:00-15:00	EU Delegation	Exit briefing, discussion of horizontal issues	ADJEMIAN Hoa-Binh (EEAS-YEREVAN) Hoa-Binh.ADJEMIAN@eeas.europa.eu Ludovic Ciechanowski CIECHANOWSKI Ludovic, Ludovic.CIECHANOWSKI@eeas.europa.eu
Friday 4 December 2015			
	North-South Transportation Corridor Project Management Unit	North-South Road Corridor Project	Arthur Sargsyan PMU Director/CEO sargsyana@northsouth.am www.northsouth.am
13:00-12:00	EBRD	NIF portfolio with EBRD – Yerevan Metro, Armenian Small municipalities project, Kotayk Solid Waste Project, Yerevan Water Supply Improvement Project	Mark Davis, Mission Director, davism@ebrd.com ; Angela Sax, Principal Banker, saxa@ebrd.com ; Rudik Tadevosyan, Municipal Infrastructure & energy (MIE) project officer TadevosR@ebrd.com
12:00-13:00	NSC	National Security Council	Aram Tananyan Major General, State Counselor of the 1st class, Head of Dept. of Implementation of National Security Strategy, atananyan@nsc.am

Annex B: Documents Consulted

- Agreement
- Project fiche/Application form
- Feasibility study
- Progress report
- Monitoring report

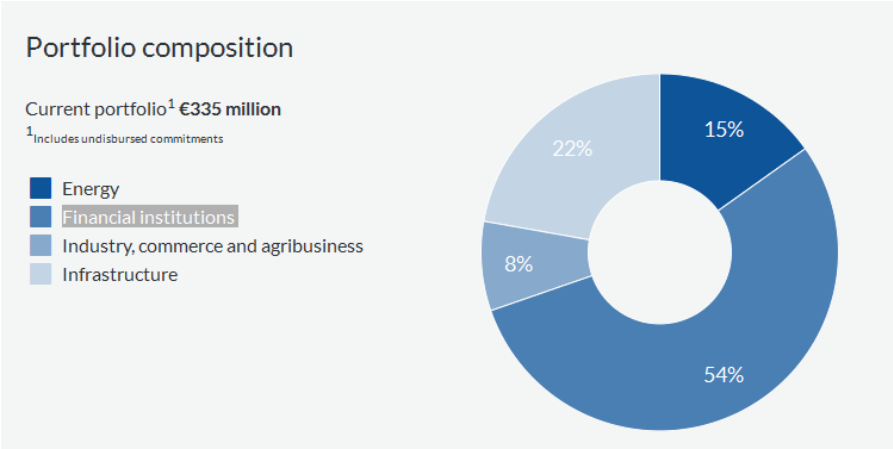
Annex C: Data on EBRD, EIB allocations by sector

Figure 1 - EIB portfolio in Armenia.



Source: ADE, based on www.eib.org ("Finance contracts signed - Armenia"), 31st of March 2016.

Figure 2 – EBRD portfolio in Armenia.



Source: ERBD website, 31st of March 2016

Annex D: Survey of Final Beneficiaries

Metro Project (5 beneficiaries interviewed)

Project identification (title, status, etc.)	Yerevan Metro improvement project
What is your involvement/role in this project?	
Metro passenger	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	5 out of 5 the price of the metro has doubled, so it could not become more affordable.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	5 out of 5 mentioned the new/renewed wagons 3 out of 5 the reduction of humidity [*note from the surveyor: as users, the passengers did not focus on the water in the tunnel, but the associated air humidity, which dropped dramatically when the drainage improved*] 2 out of 5 the availability of cellular network 3 out of 5 cosmetic repairs, lighting, 1 out of 5 new seats in the stations 1 out of 5 cleanliness of the wagons and stations 1 out of 5 selling automats and advertising panels
Who are the people benefiting from the project?	5 out of 5 all the passengers But: 3 out of 5 mostly old people, young girls (because less of them drive compared to young men), children
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?) [rate of use? Change in rate of use?]	3 out of 5 every working day 2 out of 5 few times a week 4 out of 5 no changes have happened, I use metro just as much as before 1 out of 5 now I use it often because of my new job (not related to the project impacts)
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	2 out of 5 I have no idea what kind of changes could there be 3 out of 5 The more convenient the metro becomes, the more people use it, so the road transport becomes less overloaded + maybe less GHG emissions go to the atmosphere
Have any (temporary and permanent) jobs been created?	1 out of 5 creates, but I have no idea how many 1 out of 5 creates, but during the last year the number of employees has reduced seriously [happened to be a metro employee] 3 out of 5 creates, but not much. And probably there is no creation of additional jobs. Relatively stable amount of jobs
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	5 out of 5 nothing would happen without a large scale investment. Since the metro does not have money, nothing would change without the lending+blending

Is there anything that can be improved? (what additional changes does the metro still need?)
5 out of 5 expand the railroad, add new stations 1 out of 5 expand the working hours at least up to 00:00 3 out of 5 replace the remaining old wagons 1 out of 5 reduce the price
Do you have any other comments?
0 out of 5 any additional comment

1. No name, 50 years old woman
2. Anna Dalaryan, 21 years old, female
3. Vahagn Petrosyan, 41 years old, male
4. Vahagn Martirosyan, 25 years old, male
5. Daniel Shahumyan, 27 years old , male

Total number of respondents – 5
Female – 2
Male – 3

Questions for final beneficiaries (survey #3)

Project identification (title, status, etc.)	Armenia – Small Municipalities' Water (Dilijan Wastewater Treatment Plan by Armenia Water and Sewage Company operated by Sour)
What is your involvement/role in this project?	
3 WWP employees living in the vicinity: 1 workers (Kharazyan Albert), 1 driver, 1 guard	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	n/a
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	The construction and deliver was conducted on time, no deviations from the schedule or planned activities. The WWP has 2 types of output: (1) larger solid waste, (2) smaller particles, (3) sludge. Since launch in August 2015 30m3 of sludge was extracted, equivalent to 54 tons.
Who are the people benefiting from the project?	Very little (if any) people of the Dilijan community may be aware. There is no direct connection to their daily life and the sewage goes into the same infrastructure. There have not been new connections. And the Aghstev river water is not used for irrigation purposes within Dilijan community (those who farm, use mountain water source) The WWP is located 14 km outside Dilijan community (which is an environmentally sensitive area), and the downstream community (Ijevan) could potentially have noticed impact on reduced pollution of the Aghstev river. In Ijevan the river water is being used for irrigation.

Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?) [rate of use? Change in rate of use?]	The sludge is transported to Martouni storage. The interviewees were not aware of the further usage for fertilizer purposes on regular basis, other than 2 probation episodes.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Not aware, again, if such benefits are noticeable, it would have been in the downstream community.
Have any (temporary and permanent) jobs been created?	5 jobs of the WWP staff (1 workers, 1guard, 1driver, 1 lab expert, 1 janitor)
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	Reduced water pollution in downstream communities. All processes are automated, there is no need to calibrate and configure any features.
Is there anything that can be improved? (what additional changes does the metro still need?)	
No, this system runs well, and can be replicated, no need to improve anything.	
Do you have any other comments?	
The AWSC employee had earlier noted that once per quarter a sample is gathered from the river and sent to the AWSC Sevan laboratory for 4 values (ammonium, nitrites, nitrates, and phosphate), then report quarterly. When asked about the improvement in the quality of water, the employees were not aware of any measurements beyond the test of the WWP sewage in and out tests.	

Annex E: Pictures

Fig 1: Upgraded metro carriage

Fig 2: Visibility of EU support in one of the upgraded metro carriages

Fig 3 – Advanced mechanical treatment works – Dilijan

Fig 4 Truck for transporting primary sludge and screening waste

Fig 5 Laboratory at Dilijan waste water treatment works

Fig 6 Discussion at the Dilijan waste water treatment site (health and safety taken seriously)

Fig 6 Traditional leakage control (the Armenian Small Municipalities Project used more modern technology)

Case study note – Colombia

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Abbreviations

AFD	French Development Agency
BS	Budget Support
CAF	Development Bank of Latin America
CORPOBOYACA	Corporación Autónoma Regional de Boyacá
EQ	Evaluation Question
EU	European Union
EUD	European Union Delegation
FINDETER	Financiera Del Desarrollo
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Finance Institution
IMF	International Monetary Fund
IWRM	Integrated Water Resources Management
JC	Judgement Criteria
LAIF	Latin America Investment Facility
MADS	Ministry of Environment and Sustainable Development (Ministerio de Ambiente y Desarrollo Sostenible)
MIP	Multiannual Indicative Programme
PDA	Department Water Plan
POMCA	Basin development and management plan (Plan de Ordenamiento y Manejo de la Cuenca)
PORH	Water Resource Management Plan (Plan de Ordenamiento del Recurso Hidrico)
TA	Technical Assistance
TOR	Terms of Reference

1 Introduction and context

1.1 Development cooperation

a) EU relations with Colombia are regulated by the framework agreement on cooperation between the EU and the Andean Community countries (signed in 1993 and in force since 1998). Political and policy dialogue is based on the 1996 Rome Declaration (EU's relations with the Andean Community) and a 2009 Memorandum of Understanding between the EC and Colombia that institutionalize dialogue mechanisms. The Political and Cooperation Agreement between the EU and the Andean Community of 2003 further strengthens political dialogue and broadens cooperation to include new areas such as human rights, conflict prevention, migration as well as the fight against drugs and terrorism. However it has not entered into force yet.

Colombia is an upper middle-income country with substantial potential yet with relatively high rates of poverty and inequality. The country has known sustained growth since 2004 at around 4% per year, except for 2009. Nevertheless, the Gini Index still shows a poor income distribution, placing Colombia as one of the most inequitable countries in the Latin American region.

During the 2001-2006 period, Colombia received € 275 million in programmable and non-programmable Community aid.

During the 2007-2013 period, the EU technical and financial cooperation focused on two priority sectors: conflict resolution and economic development. In recognition of the internal armed conflict the country was engaged in, it mostly aimed to contribute to peace and security by bringing short-term relief and tackling the root causes of conflict, while supporting economic and commercial development. An indicative allocation of €160 million had been earmarked for this period.

The **current Multiannual Indicative Programme covering the 2014-2017 period focuses on two priority sectors**: local economic development and institutional strengthening to reduce disparities between territories (€53.6m), and sustainable trade and investment as an instrument for poverty reduction (€10m). It has been elaborated in the perspective of phasing out bilateral co-operation in the country under the Development Cooperation Instrument.

b) Colombia's development cooperation with other partners focuses mainly on energy, urban planning and transports, and protection of the environment.

- Since 2009, the AFD invested over €915 million in Colombia, of which €275 million were dedicated to the energy sector, €250 million to the transports sector, €150 million to the urban planning and development sector, €140 million to promotion of local governance and €100 million to water management[6].

[6] AFD, *AFD and Colombia : A partnership for sustainable and solidarity growth,* November 2012.

- In Colombia, KfW is active in peace building activities (mainly struggling social inequality through urban development programmes for instance, or land allocation to refugees and displaced persons), and environment (preserving the country's natural biodiversity through reforestation, or promotion of environmental laws for example)[7].

1.2 Methodology and projects selected

Colombia was selected for a field mission because there are blending projects that are close to completion with some practical achievements. Blending was used in Colombia to finance two projects in the infrastructure-related sectors (urban development and water). Colombia also provides an example for the wider evaluation of how blending projects operate and contribute in Latin American countries.

The country mission started with a review of the entire desk based information and the generation of a list of relevant stakeholders. Almost without exception it was possible to meet all the stakeholders identified (see Annex A). EU delegation officials, AFD officials and national partner officials working on the same operation were interviewed and where possible more than one national partner was involved or participated in the interviews. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study. A field visit was made to the relevant sites for the two main projects where there were activities are being implemented (see Annex C).

The mission focused on the 2 projects financed through LAIF in Colombia, which are part of the desk sample:

- 'Towards a sustainable development of cities and regions in Colombia' (2013-2017): a Euro 212 million project financed through AFD (€150M) and IDB (€57M) loans to FINDETER, with a LAIF grant (TA) of Euro 5 million led by AFD. FINDETER is a second-tier financial institution under the Ministry of Finance that accompanies the Colombian decentralization process. It aims to improve competitiveness and quality of life in all the regions of the country in facilitating access to long term financing to public and private entities. The project has two components. Component I (AFD and IDB loans) aims to increase the provision of long term financing to investment projects in local territories. The LAIF contribution finances Component II of the project that provides institutional strengthening, preparatory studies and knowledge dissemination. Preparatory studies concern two types of cities and approaches: 'sustainable and competitive cities' part of an IDB programme aiming at strengthening intermediary towns by applying a methodology which leads to an urban planning consistent with the main priorities, and 'emblematic cities' considered as priorities by the Government.
- 'Support to the Integrated Water Resources Management (IWRM) in Colombia' (2013-2018): a Euro 142.5 million project financed through loans from AFD (market-

[7] https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Latin-America-and-the-Caribbean/Colombia/

conditioned Budget Support loan) and the Development Bank of Latin America (CAF) (€20m) to contribute to the financing of the IWRM policy, with a LAIF grant of Euro 4.5m delegated to AFD. The project supports the implementation of the IWRM sector policy adopted by the Government of Colombia in 2010, and particularly the implementation of the hydrologic plan. In addition, a 2-year technical cooperation (200,000€) was provided from the Adour-Garonne Agency in 2012. The LAIF contribution was intended to scale up the TA and implement a pilot project that would serve as reference for the implementation of the IWRM.

The findings presented below also draw on the experience gained through two additional operations:

- A third project of Euro 7 million which was under preparation at the time of this mission (February 2016): 'Climate Smart Rural Development in Colombia' complementing an AFD loan of two tranches of 500 MUSD.
- Colombia also benefited from a regional LAIF Euro 3 million project: 'Sustainable transport networks in Latin America' signed in 2011. This is a credit line awarded by the AFD to the CAF to finance studies on transport challenges at regional level and feasibility studies at country level.

2 Conclusions

2.1 Strategic relevance

In Colombia, without blending the AFD could not have accompanied its loans with large-scale technical assistance. The use of blending slightly differed from other countries where blending has often been used to co-finance large infrastructure projects. Blending was used in two cases to finance technical assistance to accompany (i) a budget support loan from the AFD that supports the implementation of the Colombian integrated water management policy; and (ii) a credit line from the AFD to FINDETER. In an upper-middle country like Colombia where the AFD cannot recourse to own funds to finance large-scale technical assistance, the LAIF was the only possibility for the AFD to have access to grant funds to finance such TA operations at a large scale. In this context, the use of EU grants blended with AFD loans is therefore justified and shows a case of complementarity per se of the EU and AFD modalities available to intervene in upper-middle countries.

Moreover, **blending projects aimed to reduce the Colombian social divide**, which is a strategic theme in the Colombian context; this also justifies the use of a grant. They focused on economic, social and environmental challenges in strategic areas. For instance, blending has been used to finance a pilot project in Lake Tota that aims to preserve the equilibrium of a threatened high mountain ecosystem and to foster participatory management with a view to reduce social tensions, and to support FINDETER in its interventions in fragile and/or intermediate-sized cities where poverty is acute. With a pure loan, FINDETER would not have benefited from similar technical assistance (scale of the support received / benchmark provided through European TA). Besides the financing of the pilot project of lake Tota constituted an incentive to implement public policies at local level with an innovative lens in

a context where water public policy implementation, especially at local level, was problematic and not carried out so far.

The projects aimed to address poverty-related issues. But the design documentation did not make the link with poverty reduction explicit throughout the chain of intended effects in the logical frameworks. Besides, the selection and prioritization of the actions to be financed by the IWRM project is a point that deserves more attention, with the overall theory of change of the project lacking clarity with one of the sub-components of the project (the renovation of the house of the Salto de Tequendama) not being logically articulated to the rest of the project.

The catalytic effect of blending -in terms of attracting additional financial resources from IFIs to finance the projects- was mixed: it was apparent for one case out of the two examined. For the IWRM project, the AFD and the CAF would not have considered to provide loans in support of the IWRM policy without the TA available through blending. These two banks, in line with their strategic approach, envisaged supporting the IWRM policy through a package with loans, dialogue at sector level and TA and would not have awarded a loan only. One should note that the catalytic effect was not necessarily linear in time: the AFD and CAF loans were agreed upon and signed before the LAIF while TA support was envisaged since the beginning of the design of the project. In the case of FINDETER, the AFD and the IDB were already supporting FINDETER through credit lines. The LAIF has been used to respond to a demand for TA from FINDETER that emerged within the framework of the credit line awarded by the AFD to this institution.

2.2 Added value of blending

The TA provided through blending projects had three main types of added value:

- It promoted innovation. For instance, the pilot project of lake Tota promoted the use of bio-indicators to measure water quality and the link of the basin management with climate change scenarios.
- It strengthened capacities though the provision of an high-quality TA; and
- It provided a guarantee of quality through applying international benchmarks.

With respect to effects on policy reforms, the IWRM project has not as such leveraged policy reforms but certainly contributed through TA to the implementation of Colombian water management public policies with a focus on innovation and knowledge. The pilot project of Lake Tota enabled the implementation of public policies at local level. This is crucial in a context where the implementation of the IWRM policy -finally adopted in 2010- has remained rather poor at local level. The pilot project has been the first participatory exercise in the country on water management processes, which can generate knowledge on various aspects, and in particular on the governance and management of the sector, and in terms of conflict resolution.

Blending improved the quality of projects but did not pay enough attention to operation and maintenance – in particular, the projects have not sufficiently paid attention to the preparation of plans and allocation of adequate budgets for operation and maintenance.

Blending led to improvements in coordination but there is still room for improvement. Blending projects enabled the EU and the AFD to start working together on common operations in Colombia. In the Colombian context where donor coordination is not well-advanced or structured into sector working groups etc., this is crucial. Blending projects showed high transaction costs: LAIF procedures are lengthy; project management is time consuming; procedures/administrative requirements between IFIs have not been simplified. They have been in line with EU policies but there was little complementarity between EU interventions and blending operations. For instance, there has been no linkage between the IWRM project and EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia.

Blending projects have not systematically complied with visibility requirements and there were mixed levels of EU visibility: at national level, beneficiaries were well aware that the EU was financing the projects, while at local/regional level the picture was more mixed.

2.3 Results

Both projects were being implemented at the time of the mission (Feb. 2016) and have **experienced delays compared to the initial planning. Activities with direct effects (outputs) started to materialize since 2015**:

- The 'Sustainable development of cities and regions' project encountered some delays in the starting phase, with the identification of the project taking longer than expected. FINDETER had to go through a steep learning curve to master the procurement guidelines of the LAIF. 42% of the LAIF funds have been disbursed in two tranches so far. By the end of 2015, 88% of the funds of the first tranche and 14% of the second tranche were contracted. At the time of the mission, a range of projects had been implemented and was in execution. Projects concerned (i) TA to develop FINDETER's support to the municipalities, (ii) the financing of pre-investment studies for various municipalities, and (iii) knowledge dissemination activities. TA support and the feasibility studies carried out were generally appreciated. So far, no actual investment/works have been carried out further to the feasibility studies.
- The 'IWRM' project encountered significant implementation delays mostly due to institutional and administrative difficulties within the Ministry of Environment and Sustainable Development. A range of activities started to take place in 2015, in particular on the governance and management of the water sector, with the revitalization of the basin council in Tota, and the development of programming tools (progresses regarding the strategic plans of the macro basins; update of the river basin management and development plan in Tota (POMCAs) and of the management guide of the POMCAs; formulation of the watershed management plan and of the related management guide). For the sub-component on the renovation of the house of Salto de Tequendama, activities were launched early 2014 just after the signature of the agreement in December 2013. The works are well progressing and are still ongoing.

The activities and their related outputs have not yet led to economic, social and environmental development results. However, both projects have a significant

potential in terms of development impact, including through the leverage they can have on Government investments in the urban development and water sectors. Results/impacts are unlikely to materialize without more attention being given to sustainability. For the IWRM project, the replication of the pilot project of Lake Tota is key for the LAIF to have development impact. The recent initiative of replication in similar basins and the commitment of the Government to finance replications of this project in other basins are positive signals. Although, management tools such as POMCAs have been developed there is no clear financing established for the actual implementation of these POMCAs. For the 'Sustainable development of cities and regions' project, a feasibility study on the renovation of the market of Monteria has been carried out but there is no clear financing established for the actual renovation of the market. In both projects, clear exit strategies to ensure the continuity of the effects are not yet in place.

3 Findings across the evaluation questions (EQs)

3.1 EQ 1 Strategic relevance

Main findings in bullet points (Judgement Criteria (JC) & source of information in brackets)

- In Colombia, the use of blending slightly differed from other countries where blending has often been used to co-finance large infrastructure projects. Blending was used in two cases to finance technical assistance to accompany (i) a budget support loan from the AFD -provided at market conditions- that supports the implementation of the Colombian integrated water management policy; and (ii) a credit line from the AFD to FINDETER -a second-tier financial institution under the Ministry of Finance that supports urban development-. In an upper-middle country like Colombia where the AFD cannot recourse to own funds to finance large-scale technical assistance, the LAIF was the only possibility for the AFD to have access to grant funds to finance such TA operations at a large scale[8]. In this context, the use of EU grants blended with AFD loans is therefore relevant and shows a case of complementarity per se of the EU and AFD modalities available to intervene in upper-middle countries. (JC1.1, interviews, project documents)
- The two blending projects were clearly focused on poverty reduction and in particular on the reduction of the Colombian social divide, which is a strategic theme in the Colombian context. In aiming to reduce social tensions, they also contribute to consolidate peace. They addressed economic, social and environmental challenges in strategic areas that provided arguments to justify the use of a grant. (JC1.3, interviews, site visits, project documents)
    - IWRM project: the LAIF supports a pilot project which aims to preserve a high mountain ecosystem threatened by the intensive use of agricultural lands for onion production, the high use of pesticides and fertilizers for onion production, fisheries, hotels and the increasing water demand from eight cities nearby Lake Tota. The project also aims to foster participatory management in a context where the deterioration of water quality leads to tensions generating conflicts.
    - 'Sustainable development of cities and regions': The project, in supporting FINDETER, aims to facilitate access to long term financing and as such plays an important role in supporting investments in infrastructures, public and urban services. It has a special focus on fragile and/or intermediate-sized cities where poverty is acute. In fine, it aims to enhance investments in Colombian urban areas through a comprehensive approach fostering economic development and social inclusion, and to reduce geographical disparities.

[8] AFD usual TA budget reaches between Euros 200.000 – 300.000

- For the IWRM project in particular, the selection and prioritization of the actions to be financed by the project is a point that deserves more attention (JC1.3, interviews, site visits, project documents):
  - The theory of change of the overall project lacks clarity with one of the sub-components (restoration of the house of the Salto del Tequendama) not being well articulated with the rest of the components of the project.
  - Lake Tota is not a priority basin for Colombia, but it presents challenges and it is relevant to support it as a demonstrative experience on conflict resolutions and other high-mountain ecosystems in the country.

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	This is confirmed. Colombia faces challenges in various areas where blending could add value. For instance, in a country presenting strong inequality levels between and within regions, support to an inclusive economic and social territorial development is an area of support that will remain key in the near future. Similarly, environmental degradation in a mega-diverse country like Colombia (e.g. pollution of the Bogotá River) is an area that generates increased attention and where blending could interestingly be used to support the financing of wastewater treatment plants (for instance in Bogota where only one plant exists – so far economic and political interests severely impeded progress in the construction of additional wastewater treatment plants)

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)

- The initiative of the two blending projects came from the development banks. The projects were discussed between the AFD (Bogota and Paris) and the EU in Brussels without sufficiently involving the EU Delegation – this was the procedure at the time. Under new procedures, the EUD was much more involved in the third AFD/EU blending operation that was under discussion at the time of the mission (February 2016). This enables the EUD to ensure coherence and promote better synergies at the level of the EUD portfolio. (JC2.1, interviews with EUD and AFD in Bogota).
- Blending projects have been aligned with EU policies (JC2.3, interviews with EUD, EU strategies, project documents):
  - 'Sustainable development of cities and regions': the project did not fit with EU priorities as reflected in the 2007-2013 Country Strategy Paper. EU interviewees confirmed that the project did not fit with the EU portfolio during the period but that it was nonetheless relevant to the priorities supported by the national authorities. Besides, the project, signed in 2013 and implemented until 2017, fits well with the first EU focal area under the 2014-2017 EU Multiannual Indicative Programme (local development and institution building) which aims to reduce territorial disparities.
  - 'IWRM': the project is aligned to EU policies: it falls under the first priority area of the 2007-2013 CSP: peace and stability. Indeed, the unequal distribution of water as well as the deterioration of water quality has been a source of tensions generating conflicts amongst water users in Colombia. The project aims to foster participatory management in a context of local dispute. Moreover, the project falls under the focal area of the 2014-2017 EU MIP: local economic development, where the EU support aims to increase social and environmental protection, in particular at regional or municipal levels.
- Blending projects have been aligned with national policies and strategies (JC2.3, interviews with national, departmental and municipal authorities, project documents):
  - 'Sustainable development of cities and regions': the project has supported the 2010-2014 and

2014-2018 Colombian National Development Plans, which outline government objectives, goals and strategies for economic development. Recognizing local differences, these plans have a regional focus. The actions financed through the LAIF at regional level have also well fitted with regional priorities. For instance, the renovation of the central market in Monteria is one of the strategic initiatives of the municipal Development Plan and of the 2032 Action plan. The mayor considers this renovation a high priority to tackle social and economic problems in the city because the surroundings of the market have presented serious social difficulties such as drug trafficking and hygiene problems.

- 'IWRM': this project supports the implementation of the IWRM policy and in particular of the 'Horizon 2014 IWRM hydrologic plan'. It is fully aligned with the 2014-2018 National Development Plan and the National Policy document "Conpes 3801/2014" that establishes the political and economic guidelines for the intervention in Lake Tota. At local level, the pilot project of Lake Tota is aligned with the Department Water Plan (PDA), the Corpoboyacá plan, the basin development and management plan (POMCA) and the Water Resource Management Plan (PORH).

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	This is confirmed. Blending projects have been aligned with both EU policies and Colombian policy priorities at national/local levels.
Training has been sufficient	This is not confirmed. EUD staff did not follow specific training on blending. There is a need to put more emphasis on this aspect to ensure proper management of the instrument from the start as well as incorporation of the changes brought to the instrument.
IFIs and EUDs are clear on the criteria behind the use of grants	This is confirmed. The AFD and the EUD were clear on the criteria but the EUD was insufficiently associated to the design of the two ongoing blending operations, which was led by the headquarters. The situation is progressively evolving with the EUD taking a more active role in the design of the third blending operation that was under discussion at the time of this mission (Feb. 2016).

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)

- In terms of macroeconomic context, Colombia has not presented specific challenges regarding its debt capacity. Prudent macroeconomic policies have underpinned Colombia's strong growth during the last few years. Colombia benefited from two two-year IMF Flexible Credit Lines (on March 2009 and July 2015), which are only available to countries with very strong fundamentals, policies, and track records of policy implementation. (JC3.1, interviews, IMF reports)
- The catalytic effect of blending -in terms of attracting additional financial resources from IFIs to finance the projects- was mixed: it was recognised for one case out of the two examined (JC3.4, interviews with IFIs):
  - IWRM project: the LAIF enabled the AFD and CAF to support the IWRM through a mix of instruments which is key to the strategic approach of these two development banks: the large-scale TA provided through the LAIF offered an interesting complement to the loans of the two banks. Without the TA, the banks would not have considered the loans in support of the IWRM policy. Support to the IWRM policy was envisaged as a package with loans, dialogue at sector level and TA. It's interesting to note that the catalytic effect is not necessarily linear

in time: the AFD and CAF loans were agreed upon and signed before the LAIF while TA support was considered key since the beginning of the design of the project.
    - 'Sustainable development of cities and regions': The AFD and IDB were already supporting FINDETER through credit lines. The LAIF has been used to respond to a demand for TA from FINDETER that emerged within the framework of the credit line awarded by the AFD to this institution. The use of the LAIF therefore rather responded to an opportunity.
- In the Colombian context, the amounts provided have been derived from an estimation of the needs in terms of TA together with the beneficiaries (FINDETER for the 'Sustainable development of cities and regions' project and the Ministry of Environment and Sustainable Development for the IWRM project. (JC3.2, interviews)

Desk hypothesis	
Assembling the financial package is pragmatic as well as quant-driven	This is confirmed. Putting together the package from multiple sources was a practical rather than quantitative matter.
Target leverage levels should be implicit in grant request	This is partially confirmed. The target leverage levels are provided for FINDETER but not for IWRM. The leverage level is only an arithmetic ratio.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)

- Only TA was used in Colombia (for two blending operations). From the AFD side, during the period there was no need for investment grant/investment subsidy, or risk capital. The AFD has been present in Colombia since mid-2009 and is therefore a relatively new actor in the country. As such it progressively developed its portfolio and has not needed so far to combine its loans with EU investment grant/investment subsidy. As far as risk capital is concerned, the AFD intervenes with its subsidiary, PROPARCO, which is dedicated to finance the private sector (JC4.1, interviews).
- In both cases, the TA provided through LAIF is relatively small compared to the total size of the project (interviews, project documents).
- The TA provided through blending projects had three main types of added value (interviews):
    - It promoted innovation. For instance, the pilot project of lake Tota (IWRM project) promoted work on bio-indication and linking the basin management with climate change scenarios.
    - It strengthened capacities though the provision of an high-quality TA (for instance it reinforced the capacity of FINDETER in implementing its actions, especially through the provision of consultants that support ongoing projects in various cities); and
    - It provided a guarantee of quality through international benchmark.
- TA was partner owned and demand driven. The national/regional/local partners have been highly satisfied with the TA provided.
- TA provided was rather oriented towards the completion of specific activities than results orientated.
- The TA envisaged fitted well with the needs. For instance, the amounts initially envisaged have well corresponded to the needs of FINDETER as well as to its absorption capacities.

Desk hypothesis	Evidence
TA was partner owned and demand led	This is confirmed. For both operations, TA was provided on the basis of a bottom-up approach.
Partner informed and took part in choice of instrument	This is confirmed. In the case of the 'Sustainable development of cities and regions' project, TA was provided following a demand from FINDETER to benefit from TA to strengthen its capacities.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)

- The IWRM blending project has not leveraged policy reforms as such but certainly contributed through TA to the implementation of Colombian water management public policies with a focus on innovation and knowledge (JC5.3, interviews, site visits). The pilot project of Lake Tota financed through the LAIF enabled the implementation of public policies at local level. This is key in a context where the implementation of the IWRM policy -finally adopted in 2010- has remained rather poor at local level. The pilot project has been the first participatory exercise in the country on water management processes, which can generate knowledge on different key themes:
  - Inter-institutional agreements: the Ministry of Environment and Sustainable Development (MADS), the Ministry of Agriculture and the Ministry of Mines have signed an agreement to fully support water basin management in the country.
  - Guidance of the Ministry of Environment and Sustainable Development (MADS): the operational guidelines of the ministry now include an adjustment of the working methodology with farmers, which is a lesson learnt from the experience in Tota.
  - Governance of the water sector, with the revitalization of the basin council in Tota
  - Management of the water sector:
    - Programming tools (progresses regarding the strategic plans of the macro basins; update of the river basin management and development plan in Tota (POMCAs) and of the management guide of the POMCAs; formulation of the watershed management plan and of the related management guide)
    - Integration of the POMCAs within the municipal and departmental (e.g. CORPOBOYACA) development plans
  - Conflict resolution (decrease of local tensions over water resources)
- Monitoring and implementation of the IWRM sector policy (in particular of the hydrologic plans) has been initially followed through the AFD budget support loan of 100m$ with the monitoring of five key indicators. Once these indicators were fulfilled, the TA financed from LAIF offered the AFD an entry point to pursue the technical dialogue with the Ministry of Environment and Sustainable Development (JC5.3, interviews).
- There was no linkage between the IWRM project and EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia (signed in 2015 for a budget of €20.8M), which aims to promote the responsible use of biodiversity and ecosystems goods and services in conflict affected and environmentally sensitive areas (JC5.2, interviews).

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	This is not confirmed. There has been no synergy so far between the IWRM project and the EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia. EU staff interviewed suggested that blending should include explicit mechanisms to facilitate EU participation in the policy dialogue held within the framework of the loans awarded by the IFIs.
Blending and BS together are a more powerful factor of change than either alone	This is not confirmed. See above explanation on lack of synergies.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

- Blending contributed to an improved quality of projects in providing access to approaches promoting innovation, high quality professional expertise, and international expertise giving a benchmark (see also EQ4). The fact that both projects are being supported by international/european cooperation gives credibility to the institution that is supported (FINDETER for the 'Sustainable development of cities and regions' project) and to the project per se (pilot project of Lake Tota (IWRM project); restoration of the central market of Monteria)
- The support provided to FINDETER as far as pre-investment studies are concerned has been delivered in accordance with international standards (JC6.2, interviews, site visit, project documents). FINDETER appreciated the quality of the pre-investment studies financed with the LAIF. The feasibility study of the renovation of the central market of Monteria is a rigorous document detailing physical and technical standards to rebuild the place. It also includes an adequate coverage of safety issues.
- Blending projects have not sufficiently paid attention to the preparation of plans for operation and maintenance of the investments with adequate budgets (JC6.4, interviews, site visits).
    - FINDETER: the feasibility study for the renovation of the market in Monteria financed through the LAIF does not include an analysis of the economic and social effects or of the costs and financing possibilities of the renovation of the market. At the time of this mission (Feb. 2016), funds to finance the renovation of the market were not secured; the mayor's office was looking for financial resources.
    - IWRM: the POMCA of Lake Tota includes a consolidated budget over 15 years for all envisaged programmes, with the costs and financing sources being further detailed per programme. However, interviews showed that in practise the financing of the programmes of the POMCA poses challenges and is not established.

Desk hypothesis	Evidence
Robust feasibility studies plus potential economic, environmental and social impacts	This is partly confirmed. Feasibility studies have been financed to support the urban development projects of various municipalities in Colombia. In the case of Monteria, the study does not pay attention to the economic and social effects of the project of renovation of the central market.
Detailed designs and specifications in accordance with international best	This is confirmed. The two projects respected international best practices. Beyond that, the fact that blending projects provided project preparation and performance benchmarks was a key element.

practises	
Effective QA and QC	NA. In the case of the renovation of the central market of Monteria, technical specifications have been well examined but the construction has not yet taken place since the mayor's office is looking for financial resources. For the IWRM project, there is no construction as such involved.
Effective O&M	This is not confirmed. Insufficient attention has been paid to operation and maintenance costs in the two cases examined.
Higher project quality	This is confirmed. Blending led to an increased project quality. In particular, blending enabled the two projects to adopt an innovative lens.

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)
NA - Blending projects have not addressed access to finance for MSMEs

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)

- Blending projects enabled the EU and the AFD to start cooperating in Colombia. Before the launch of the two blending operations in 2013, the EUD and the AFD did not have contacts. This is key in the Colombian context where donor coordination is not well-advanced or structured into sector working groups etc. The design and implementation of the two blended operations marked the beginning of a working relationship between the EU and the AFD in the country. At that time, the preparation of blending projects has been mostly handled by the headquarters (EU in Brussels and AFD in Paris), with little involvement of the EUD. At the time of the mission (Feb. 2016), the EU and the AFD were preparing the third blending operation to be implemented in Colombia, with an increased engagement of the EU Delegation. (JC8.1, interviews)
- Blending projects showed high transaction costs: LAIF procedures are lengthy; project management is time consuming; procedures/administrative requirements between IFIs have not been simplified. (JC8.2, interviews)
- In terms of visibility, blending enabled the EU and the AFD to offer a european front to specific challenges. (JC8.3, interviews)
- The projects have not systematically complied with visibility requirements and there were mixed levels of EU visibility: at national level, beneficiaries were well aware that the EU was financing the projects, while at local/regional level the picture was more mixed:
    - 'IWRM': For the pilot project of Lake Tota, beneficiaries met were not well aware that the EU was financing the project while EU logos have not been used on the equipment financed through the project. In the case of the restoration of the house of the Salto de Tequendama, EU visibility requirements were respected with the use of EU logos on the posters/PPT presentations etc.
    - 'Sustainable development of cities and regions': At strategic level, the project gave high visibility and political credibility to the AFD/EU in the field of urban development, an area where the IDB and the WB were the only recognised international actors so far. The project included a specific component on visibility/dissemination of knowledge with three sets of activities (workshops, forums and publication of documents). This is a good practise to ensure EU visibility. For instance, the forums organised (e.g. visibility event on the LAIF programme in Cartagena in May 2014) have been a way to increase EU visibility. During the site visit in Monteria, EU logos were not used in the presentations/documents received while beneficiaries met were not fully aware that the EU was financing the project.

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	This is not confirmed. There is no evidence of a lengthy preparatory phase that led to better project quality.
Management costs were inferior to pure loans	This is not confirmed. Transaction costs are high with blending projects (see above text).
Dissemination of knowledge has led to visibility	This is partly confirmed. The knowledge dissemination component of the project implemented by Findeter has enhanced EU visibility through the organisation of specific events but has mostly led to increased visibility of the programme. A good practice suggested to improve EU visibility lies in the presentation by the implementation agency of a 'plan/visibility strategy' at project level to the EUD.

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- The projects have addressed poverty-related issues (see also EQ1 above); but the design did not document poverty-reducing challenges and the link to poverty reduction was often not explicitly stated throughout the chain of intended effects in the logical frameworks. (JC9.1 and JC9.4, interviews, project documents)
  - 'Sustainable development of cities and regions': The project has an explicit poverty-lens, with LAIF funding (Component 2) aiming to 'help reducing regional development gaps linked to cities development and poverty reduction'. However, activities and indicators to be reached are not explicitly linked to poverty reduction. The LAIF contribution was often used to support the pre-investment phase of projects to be financed in cities presenting a strong poverty rate (e.g. Monteria, Cartagena, Valledupar).
  - 'IWRM': the overall and specific objectives as well as the planned activities in the agreement are not explicitly linked to poverty reduction. Besides, the inclusion of the sub-component on the renovation of the historical house of Salto de Tequendama is relevant from a cultural point of view but does not fall within the objectives pursued by the LAIF. Its link to poverty reduction is also unclear.
- The assessment of risks as well as the inclusion of mitigating measures at design stage was mixed. In the case of FINDETER, financial risks, capacity issues, and environmental risks are identified together with appropriate mitigating measures in the project fiche (but not in the agreement). For instance, part of the grant has been used to develop FINDETER's technical assistance activities to municipalities. For the IWRM project, the quality of project preparation presented weaknesses with risks not being sufficiently well assessed at design stage. In particular, it was decided to entrust the execution of the LAIF contribution to the MADS (financing agreement signed between the AFD and the MADS) so as to foster ownership. In practice, Colombian administrative obstacles and institutional bottlenecks - underestimated at design stage- significantly delayed project implementation.
- Both projects were being implemented at the time of the mission (Feb. 2016) and have experienced delays compared to the initial planning. Activities with direct effects (outputs) started to materialize since 2015. (JC9.2 and JC9.5, interviews, project documents, site visits)
  - 'Sustainable development of cities and regions': Some delays were encountered in the starting phase, with the identification of the project taking longer than expected and the learning curve FINDETER had to go through with the procurement guidelines of the LAIF. 42% of the LAIF funds have been disbursed so far, in two tranches (Dec. 2014 and Oct. 2015). End 2015, 88% of the funds of the first tranche and 14% of the second tranche were contracted. At the time of the mission, a range of projects had been implemented and was in execution. Projects concerned (i) TA to develop FINDETER's support to the municipalities, (ii) the financing of

pre-investment studies for various municipalities, and (iii) knowledge dissemination activities. TA support and the feasibility studies carried out were generally appreciated. So far, no actual investment/works have been carried out further to the feasibility studies.

- 'IWRM':
  - The project encountered significant implementation delays due to administrative issues (over a year to formulate the AFD-EU and AFD-Ministry financing agreements) as well as institutional and administrative difficulties within the Ministry of Environment and Sustainable Development (including a high turn over of the staff). Activities actually started to take place in 2015 while the financing agreement with the Ministry had been signed in April 2014. A range of activities started to take place, in particular on the governance and management of the water sector (see also EQ4 which details these aspects).
  - For the sub-component on the renovation of the house of Salto de Tequendama, activities were launched early 2014 just after the signature of the agreement in December 2013. The works are well progressing and are still ongoing.

- The activities and their related outputs have not yet led to economic, social and environmental development results. However, both projects have a significant potential in terms of development impact, including through the leverage they can have on Government investments in the urban development and water sectors. In the case of the 'Sustainable development of cities and regions' project, the LAIF is supporting FINDETER in its progressive transformation from traditional development bank into national technical agency supporting urban development. For results/impacts to materialize, it is key to put more attention on sustainability issues (JC9.3 and JC9.6, interviews, site visits, project documents):
  - 'IWRM':
    - The replication of the pilot project of Lake Tota is key for the LAIF to have development impact. The recent initiative of replication in similar basins (el Otun and la Cocha) and the commitment of the Government to finance replications of this project in other basins are positive signals.
    - Management tools such as POMCAs have been developed but there is no clear financing established for the actual implementation of these POMCAs.
  - 'Sustainable development of cities and regions': a feasibility study on the renovation of the market of Monteria has been carried out but there is no clear financing established for the actual renovation of the market.
  - Both projects have to put attention on the definition of clear exit strategies to ensure the continuity of the effects.

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	NA. Both projects do not deal with the construction of infrastructure further to the realisation of feasibility studies. But, quality work and consideration on the added value the projects (e.g. innovative approaches) underpinned project design.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	This is partly confirmed. Risks have not been taken into account in the IWRM project, while they have been rather correctly dealt with for FINDETER.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	This is partly confirmed. While it is too early to observe the development impact of these two ongoing projects, the status of implementation so far

	shows that they both have a significant potential development impact if sustainability issues are effectively dealt with. Besides, the theory of change of both projects was not clearly linked to poverty reduction throughout the intended chain of effects.
Monitoring of results was uneven across projects and IFIs and often insufficient	This is confirmed. Monitoring has been orientated on the activities and not on the effects/results.

Annexes

Annex A: Persons Met and programme

Mission dates: 15 Feb. – 19 Feb. 2016
Participating: Virginie Morillon, Oscar Huertas

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Annex B: Documents Consulted

- Project fiches/Contribution requests presented to the operational board meeting of the LAIF Facility
- EU Agreements/Contracts, including Annexes on description of the action
- Progress reports:
    - Annual reports from FINDETER
    - Documents related to the Steering Committees on LAIF FINDETER
    - Progress reports on the IWRM policy
    - Annual reports on the IWRM project and on the restoration of the historical house of Salto de Tequendama
    - Power point presentations
- Feasibility study of the renovation of the central market of Monteria

Annex C: Pictures

IWRM - Pilot project of Lake Tota

1. View of the lake, biodiversity hotspot located at 3000m

2. Intensive production of onions, relying on use of fertilizers, which pollutes the water of the lake (e.g. algae blooms). Note: 90% of the onion production of Colombia is done around the Lake Tota.

3. Equipment bought with the project for the laboratory of CORPOBOYACA in charge of measuring water quality (of the lake Tota)

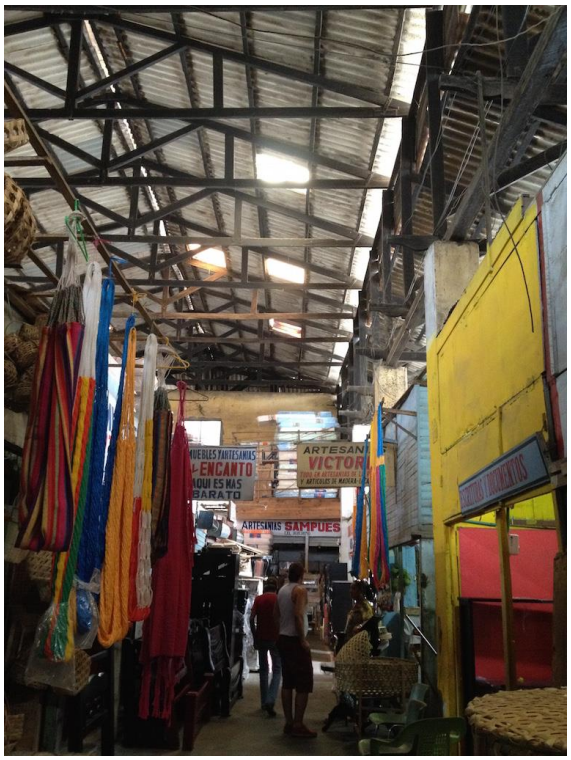
IWRM – Renovation of the historical house of Salto de Tequendama


Proyecto de renovación del
antiguo hotel del Tequendama
La Casa Museo busca desarrollar actividades educativas y culturales que generen conciencia y respeto por la biodiversidad de la región del Salto de Tequendama y la importancia del cuidado y manejo del recurso hídrico en la zona.
Tiempo de ejecución 12 meses
Apoyan:
UNIÓN EUROPEA
AGENCE FRANÇAISE DÉVELOPPEMENT
Liberté · Égalité · Fraternité
RÉPUBLIQUE FRANÇAISE
BANCO DE DESARROLLO DE AMÉRICA LATINA

'Towards a sustainable development of cities and regions in Colombia' project

Field visit in Monteria, where LAIF was used to finance a feasibility study for the renovation of the central market of Monteria. The feasibility study has been finalized in April 2015. The financing of the renovation will probably be part of the priority projects of the new development plan of the city of Monteria, to be prepared following the last municipal elections held in October 2015. Renovation works have therefore not started as yet.

A. Initial situation of the central market



Case study note – Republic of Congo

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1 Introduction

1.1 Country context and development cooperation[9]

Congo is a country rich in natural resources (around 22 million hectares of forests) and raw materials (oil, timber). However, its economy is vulnerable to exogenous shocks such as the volatility of oil prices, and almost half of its population of 4.5 million of inhabitant (46.5% in 2011) still lives below the national poverty line.

Congo displays features that make it qualify for blending:

- **Middle income:** the GNI per capita[10], using the World Bank Atlas method, was $2720 in 2014, which places the country in the lower middle income category (annual per capita GNI range of $1046-$4125). It means that, depending on their policies on use of public funds in MICs, some development partners will not provide grant-only financing for Congo, even though its economy is not yet sufficiently advanced to sustain loan-only finance in all cases. According to the IMF, Congo has a moderate risk of debt distress. The country has to borrow on highly concessional terms (minimum 35% for the grant element)

- **Sector priorities:** Congo has a strategic position in the region with its deep-water port in Pointe-Noire and a 170-kilometre long coast on the Atlantic Ocean. However, even though Congo is the top foreign direct investments (FDI) country in Central Africa, 90% of these FDI inflows are targeting the oil sector. And, as oil prices tend to fluctuate, diversifying beyond oil-related activities is important for Congo. Attracting foreign investments to develop infrastructures and agriculture (10 million hectares of extensible arable land) is thus needed and blending finance represents an adequate option to attract these investments.

Even though the EU and its member states are Congo's largest donor of official development aid, the Republic of Congo works actively with many other development partners: global institutions (World Bank, UN), European Institutions (AFD, EIB, Lux-development), African institutions (AfDB, BDEAC – Central African Development Bank), and countries such as China.

a) Congo's cooperation priorities with the EU focus on regional integration and on economic, commercial and natural resources governance.

- The EU 2008-2013 funding cycle supported these priorities through investment in transport infrastructures and sustainable management of natural resources, and through institutional support and capacities reinforcement in a number of areas, including: transports, economic diversification, public finance governance, and economic and commercial governance.

- In 2007 the EU-Africa Infrastructure Trust Fund's (EU-AITF) was established, with the goal "to promote investment in infrastructure in

[9] http://www.worldbank.org/en/country/congo/overview#1 ; http://data.worldbank.org/country/congo-republic

[10] According to the World Bank Atlas method (source: World DataBank, January 2016).

Sub-Saharan Africa through various forms of grants blended with long-term financing from development finance institutions". In Congo, the EU-AITF has especially focused on transport and information and communication technologies. The annex C presents the list of blending projects financed with EU-AITF grants.

- The EU 2014-2020 funding cycle, which was granted €103 million, is mainly putting emphasis on two sectors: economic and commercial governance (which includes the sustainable management of forest ecosystems), and local development.

b) Congo's development cooperation with other partners focuses mainly on transport, industry infrastructures, and environment.

- In Congo, EIB mainly invests in industry (48%), transport (30%) and water and sanitation (9%) projects (see annex F).

- AFD focuses on three sectors: infrastructures, environment, and human development (including basic education, professional formation and health).

1.2 Methodology and the selected project

Congo was selected for a field mission because there is a blending project that is completed, with practical achievements to be observed. The country has been involved in two blending projects in the infrastructure sector over the evaluation period (cf. Annex C). Congo also provides an example for the wider evaluation of how blending projects operate and contributes in Central Africa countries.

The country mission started with a review of the entire desk based information and the finalisation of a list of relevant stakeholders. It was possible to meet all the stakeholders identified by EU delegation officials and by the evaluation team, including IFI local office and national partner officials. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study.

The country mission focussed on one project of the sample, the PAPN (Port de Pointe Noire), started in 2009. It's a 166 M€ project, with an EU contribution of 8.6M€, entirely financed by ITF through AFD: 6.6M€ were provided in the form of an Interest Rate Subsidy on the 29M€ AFD loan to the PAPN (last disbursement in 2014), and the remaining 2M€ took the form of a Technical Assistance, of which the main part went to improving the financial and accounting function of the port (on-going). The project intended to[11]:

- develop, extend and equip the container terminal, to dispose of 800m of quay by rebuilding 530m and building 270m of quay, deepen the Port's foundation to accommodate larger container ships, more than double container storage facilities, and develop a specialised area to manage the logistics of filling and emptying containers;

11 EU-AITF, Semi-Annual monitoring report PAPN, June 2015

- dredging to deepen the Port's basin, strengthening and extending (by 300m) of the protective dyke and arrangement of a new sand entrapment, rehabilitating and developing supporting Port infrastructure such as roads, railways, water and sanitation systems, and the electricity network, and implementing an environmental management plan;
- improve overall governance of the Port and its operations.

2 Conclusions

2.1 Strategic relevance

The project faced challenges which justified the use of grants. The ERR of the project was higher compared to the average FRR of the project over the period 2000-2008 (21% versus an average of 1% of the return on equity), which suggests the classic condition that favours blending (i.e. ERR higher than project's FRR). As the FRR of the project has not been communicated, it is not clear to which extent the project would not have happen without the IRS, especially as the beneficiary has stated that the loan could have been borrowed on the local market (ECCAS)[12]. It has been however mentioned by the IFI and the beneficiary that without the IRS, the debt service would have been too high to enable PAPN to bear the loan. Regarding the TA, it has been mentioned that the EU grant was the only option, as the IFI has limited grants available for Congo, a middle-income country.

The catalytic effect of blending, in terms of attracting additional financial resources from IFIs to finance the project, was limited. Blending has contributed to improve the return of the project and to make the financial conditions of the lead IFI more competitive than other available resources rather than attracting additional financial resources. TA has been seen by the IFIs as a way to reduce the risk on the project, but there is no evidence that without the TA grant the loans would not have been provided.

Congo is a country where blending has a potentially strong strategic relevance. By supporting nationally important projects such as the PAPN, blending can help the country to face its development challenges (in terms of infrastructures for instance) beyond what its debt capacity can sustain, as blending helps overcome the limitation of available grants for middle-income countries from other donors.

The proportion of the grant has been based on detailed calculations. The IRS amount corresponds to the grant needed to bring the interest rate for the borrower to 4.6% (EURIBOR 6 months + 120bp), the level of interest rate that came out from the negotiation between the IFI and the beneficiary[13]. The TA amount requested was based on previous studies conducted by the IFI. The compliance with IMF requirements has also been highlighted in the application form, but not as a determinant of the EU grant size.

12 The conditions proposed by local banks to the port have not been communicated neither.

13 The FRR of the project has not been communicated. It should be mentioned that the negotiations have been conducted at the HQ level and not by the local agency of the IFI. Furthermore, the persons encountered during the field mission were not in their current position when the project was design.

2.2 Added value of blending

The blending project has led to the delivery of high quality infrastructure, despite a pollution problem that occurred during the implementation. The grant has improved the quality of the project through institutional capacity building. It was not able to avoid all the problems during the implementation and has not addressed long term sustainability issues. Engineering support (funded by the lead IFI) has been provided to the Port for the preparation of the project, including the conduct of a feasibility study. As a result, the outputs respond to international standards of quality. However, this support has not avoided a pollution problem to occur during the implementation of the project (dredging operations have caused hydrocarbon pollution in the Port and on the coast). Furthermore, the feasibility study had highlighted the weaknesses of the beneficiary in terms of the maintenance of its equipment (lack of material, lack of resources), but there is no evidence that the project has taken this aspect into account to ensure the sustainability of the outputs. The TA grant has contributed to the quality of the implementation of the project only by strengthening the institutional capacities of the beneficiary. The impact of blending on the design of the project is limited, due notably to the low involvement of the EUD at that stage.

Blending has not contributed to policy reforms in the sector. There is indeed a limited impact of donors in general, and of EU through blending in particular, on policy reforms in Congo, as development aid represents a limited share of the country's budget (country programmable aid has represented on average 1.56% of government expenditure over the evaluation period).

Regarding the visibility, the awareness about EU grants in the project has been limited. The majority of the management of the PAPN we've encountered perceived the project as an IFIs project. Only the person involved in the negotiations of the contract with the IFIs was aware that the interest rate was subsidized, and that the TA was funded by an EU grant. The limited visibility could be explained notably by the leading role taken by the IFI in the project. There have been no interactions between the beneficiary and the EU.

The information sharing and coordination has been limited in practice. The EUD has not received information on a regular basis on the project. It was for instance mentioned that the only correspondence received about the project was the one related to the pollution problem encountered in 2012. At the time of the project the EUD was not involved in discussion with the lead IFI regarding the design of the project (no written records of such involvement). However, the situation is currently different. There is a strong coordination among the actors present in the country (essentially AFD and the French Embassy, WB, AfDB and EU), from which emerges ideas of future blending projects.

2.3 Results

There is evidence of physical results from the blending project: the extension of the dyke and the construction of the external breakwater were completed in August 2013, the water works were completed in September 2013, the extension of quay was completed in April 2014 and the electricity works in May 2014. The dredging conducted to deepen the basin has also been finished.

There is also evidence of various positive impacts of the project on the activities of the port, as the environment and jobs creation: the project has boosted the traffic of

containers (a 74% increase has been observed between 2010 and 2014[14]); jobs have been created (users and subcontractors of the port) but the beneficiary could not quantify this; a lot of effort has also been done to overcome environmental issues (such as the construction of a decontamination pool, to overcome the pollution issue that has occurred during the implementation of the project). Finally, the port is envisaging a decrease of its currents tariffs (thanks to traffic's increase), and proposes preferential tariffs for basic commodities[15].

A negative impact has been observed on other activities. Given the extension of the containers terminal, the businesses not related to containers, such the traffic of cement, cereals and ship repair (about 10% of port's activities) have now a limited space on the port and have seen their volume of activities decrease. This potential negative impact of the project was not suggested in the feasibility study.

[14] Other factors such as the development of the transshipment can also partly explain this increase.

[15] This was already the case before the project.

3 Findings across the evaluation questions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
▪ The project examined had challenges which justified the use of an ITF grant: - The ERR of the project was higher compared to its FRR (21% versus an average of 1% of the return on equity over the period 2000-2008). PAPN infrastructure are indeed characterized by their long life time and their indivisibility, which limit their return. It was mentioned by both the IFI and the beneficiary that without the IRS, the debt service would have been too high to enable PAPN to bear the loan, notably because it's a non-sovereign loan (not guaranteed by the State). However, the FRR of the project has not been communicated. (JC 1.3; interviews with IFI and beneficiary; ITF application form, 2009, AFD; Monitoring report, 2015, AFD) - The IFI has limited grant available for Congo, a middle-income country. The EU grant was therefore the only option for the TA component, essential to the success of the project. The use of the ITF grant was also appropriate given the regional dimension of the PAPN (the only port in deep water, about 70% of the merchandise arriving are dedicated to other countries). (JC 1.1; meeting with IFI and EUD; Rapport d'activités au 31 décembre 2014, PAPN) ▪ It is however not clear to which extent the project would not have happen without the IRS. The beneficiary has mentioned that the loan could have been borrowed on the local market (ECCAS), where the banks were over-liquid at the time of the contract, and interested in the project. But there was a willingness from the PAPN to borrow on international markets, in order to be committed to international standards (notably in terms of controls). The details of the negotiations on interest rates by the beneficiary with IFIs and local banks have not been communicated. We cannot therefore confirm that the IRS has contributed to have the interest rate on the IFI loan comparable to the interest proposed by local banks. (JC 1.3; interviews with EUD and beneficiary)

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	Confirmed. Blending can assist Congo to face challenges regarding infrastructure, as such projects often have high ERR but cannot sustain full commercial terms. The EUD is already involved in discussions with IFIs regarding the pipeline (PAPN phase 2, other transport projects)

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
▪ The project contributes to the implementation of the national transport plan, adopted in 2005 by Congolese authorities with the technical support of the EU. The EUD was however not involved in the choice of the project in pipeline. For infrastructure projects (especially with a regional dimension), blending is the option prescribed by the Regional Indicative Plan. It is indeed mentioned in the RIP Central Africa (2014-2020) that one of the selection criteria for investments and feasibility studies in infrastructures to beneficiate from RIP resources will be the "blending" potential of the project. RIP resources will be used to support projects identified through Blending facilities, in collaboration with IFIs. . As a consequence, all the projects that may be relevant for the EU can't be financed, as IFIs are not interested for instance in small size projects[16]. Furthermore, it was mentioned that there is a need for a clear EU blending strategy. (JC 2.1-2.3; interviews with EUD and IFI; CEEAC, CEMAC et UE, Afrique centrale – Union européenne, programme indicative régional pour la période 2014-2020, 2015)

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	Confirmed. The PAPN was aligned with the national transport policy to which the EU has contributed.
That the training has been sufficient	Not confirmed, as no specific blending training has been mentioned by the EUD nor by the IFI.
That IFIs and EUDs are clear on the criteria	Not confirmed. Criteria are not clear for the EUD. Clarifications are also needed regarding EUD's role in the different phases of blending projects. A clear strategy is needed, for the EUD to identify the projects and not wait for IFIs to propose them.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)
▪ The IRS amount corresponds to the grant needed to bring the interest rate for the borrower to 4.6% (EURIBOR 6 months + 120bp). This figure came out from the negotiations between the IFI and the beneficiary. The TA amount requested was based on previous studies conducted by the IFI. (JC 3.2-3.3; interview with IFI and beneficiary; ITF application, 2009, AFD) ▪ The overall compliance with IMF concessionality requirements has been mentioned in the application form. The government had to check whether an interest rate subsidy had to be envisaged on the loan provided by the non-lead IFI, in order to comply with the requirements. (JC 3.3; ITF application form, 2009, AFD) ▪ It has also been mentioned that the envelop for regional projects was used on a first proposed-first served basis, despite the differences among the countries in the region in terms of available capacities (human resources for instance) for projects identification and preparation (JC 3.3; interview with EUD).

Desk hypothesis	Evidence
Assembling the financial package is pragmatic as well as quant driven	Confirmed. The IRS grant requested was based on calculation detailed in the application form. The TA amount was based on previous studies conducted by the IFI.

[16] In exceptional cases, for instance in the case of fragile states, other options such as autonomous grants and/or co-financing could be considered (CEEAC, CEMAC et UE, Afrique centrale – Union européenne, programme indicative régional pour la période 2014-2020, 2015)

Target leverage levels should be implicit in grant request	Not confirmed. The target leverage is not provided in the application form.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
▪ The appropriate blending mix of instruments has been used. The IRS has contributed to improve the return of the project. The IRS has also contributed to some extent to increase the attractiveness of the IFI loan compare to other resources available on the market for the beneficiary. As mentioned by the beneficiary (cf. EQ1), the PAPN was in position to negotiate the interest rates, as local banks were also interested in financing the project. The TA was relevant for the quality of the project. It has allowed IFIs to impose standards that would otherwise not be implemented by the beneficiary. (JC 4.1-4.2; interviews with IFI, EUD and beneficiary)

Desk hypothesis	Evidence
TA was partner owned and demand led	Partly confirmed. According to the beneficiary, the TA came from its request to the IFI, whereas project documents indicate that the TA was requested by the financiers.
Partner informed and took part in choice of instrument	Confirmed. The beneficiary was aware of the availability of grants for TA. The beneficiary has also negotiated the interest rate with financiers.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)
▪ Blending has not contributed to policy reforms. There is indeed a limited impact of ODA in general, and of blending in particular, on policy reforms in Congo, as development aid represents a limited share of the country's budget (country programmable aid has represented on average 1.56% of government expenditure over the evaluation period[17]). (JC 5.1 – 5.2; interviews with EUD)

[17] http://databank.worldbank.org/data/reports.aspx?source=2&country=COG&series=&period=; http://stats.oecd.org/Index.aspx?DataSetCode=CPA&lang=fr

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	Partly confirmed. Policy work is conducted by the EU, and all its interventions contribute to increase its voice. However, this work is conducted at modest level given the volume of EU support, including EU grants through blending, in the country.
Blending and BS together are a more powerful factor of change than either alone	Not applicable. No budget support in Congo over the evaluation period.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

- The quality of the project reviewed was high. The project has been prepared by the PAPN, with a lot of engineering support funded mainly by the lead IFI. The non-sovereign loan provided for the project was indeed a big operation for the IFI agency as regards to its overall portfolio. The IFI has therefore financed a lot of engineering studies and a joint instruction (AFD-EIB) with its study fund for capacity building (its only grant available for Congo, considered as a rich country). This support has included a feasibility study which has covered a diagnostic of the installations, a diagnostic of the sediments, a prevision of the traffic, an analysis of the economic return and an analysis of the risks. There have also been joint missions with EIB (evaluation, supervisions, concertation, aide-mémoires, etc.). (JC 6.1; interviews with IFI and beneficiary; ITF application form, 2009, AFD)

- Despite the environmental and risks assessments conducted for the feasibility study, a pollution issue has occurred during the implementation of the project (dredging operations caused hydrocarbon pollution in the Port and on the coast in September 2012). The feasibility study conducted for the project did not performed a depth sounding. As a consequence, this potential pollution problem had not been anticipated. (JC 6.1; interviews with EUD).

- The TA grant contribute to the quality of the project by strengthening the institutional capacities of the PAPN. However, the impact of blending on the design of the project is limited. There is no indication of EUD's involvement in the design of the project. There is no indication neither that EU requirements were not met by the project. According to the interviewees, the involvement of the EUD will be improved for future projects (JC 6.2; interviews with IFI and EUD).

Desk hypothesis	Evidence
In comparison to what other modalities (and why) blending does (or not) deliver better quality at the various stages of the project cycle.	Probable. The feasibility studies, the TA as well as the conditionalities associated to the project have contributed to its quality.
In comparison to what other modalities (and why) does (or not) blending deliver: - greater sustainability - greater affordability (to beneficiaries) - better viability/rates of return (to IFIs) - better impacts (on poverty alleviation)	Probable. The project has been designed according to the results of the feasibility study which has analyzed the sustainability and the affordability for the beneficiary. Impact on poverty is expected to be indirect, notably through jobs creation.

- more focus on the needs of vulnerable groups	
EUDs are (not) directly involved in all stages of the blending cycle	Not confirmed. The EUD was not involved in the design of the project. Its role during the implementation has also been limited.
IFIs have (in)adequate resources for effective policy dialogue	Partly confirmed. The status of the PAPN have been approved in 2000, and revised in 2006 and 2007 by the government, upon IFIs' recommendations. However, the limited amount of development funds at country level undermines the effectiveness of policy dialogues.
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments)	Confirmed. The lead IFI has had regular contacts with the Port regarding the implementation of the project. The pollution problem has been identified.
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Confirmed. The quality requirements were aligned among the financiers.
That potential beneficiaries (i.e. partner governments and institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	The EUD is well informed about blending. The national partner involved in the negotiations of the project was also aware about the IRS and TA grants provided by the EU through the ITF.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	Confirmed. AFD and EIB had to suspend their loan disbursements in August 2013 due to insufficient actions from the Government in terms of depollution activities.

3.7 EQ 7 Finance barriers – N/A

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)

- The agreement with ITF contains visibility requirements that are followed by the IFI at the HQ level. The IFI's local agency as well as the EUD are not aware of these requirements. The EUD considers that EU visibility is limited because the project is conducted by the lead IFI, and because the financial involvement of the EU in project is quite limited. Indeed, the majority of the management of the PAPN we've encountered perceived the project as an AFD-EIB project. Only the person involved in the negotiations of the contract with the IFIs was aware that the interest rate was subsidized, and that the TA was funded by an EU grant. There was no interaction between the EUD and the beneficiary (JC 8.3; interviews with IFI, EUD and beneficiaries)

- Regarding transaction costs, the IFI has to comply with reporting requirements. The reports are prepared by the IFI's local agency, and then transmitted to the HQ in charge of the relation with ITF. No issues have been reported regarding procedures among IFIs and the EU. IFIs have indeed reacted in the same way (suspension of loan disbursement) when the pollution problem occurred (cf. EQ6). The lead IFI however released its final disbursement while EIB was still on-hold until depollution activities have actually started and implementation of

additional measures, such as compensation beyond depollution, have been committed. (JC 8.2; interviews with IFI and EUD)

- Regarding information sharing and coordination, the EUD has not received information on a regular basis for the project. It was for instance mentioned that the only correspondence received about the project is the one related to the pollution problem encountered in 2012. The EUD neither has been involved in discussion with the lead IFI regarding the project (no written records of such involvement). The situation is currently different. There is a strong coordination among the actors present in the country (essentially AFD and the French Embassy, WB, AfDB and EU), from which emerges ideas of blending projects. They have meetings every 2 months and they all know what is being done or implemented by others. They also try to have complementary interventions. (JC 8.1; interviews with IFI and EUD)

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	This hypothesis could not be verified, as we have not met people (from the EUD and the IFI) who have been involved in the preparation of the project. It was however mentioned that the role of the local IFI's agency is limited to the identification of the project. The preparation of the project and the contact with the blending facility was conducted at HQ level.
Management costs were inferior to pure loans	Not confirmed. Blending have increased management costs, for instance through reporting requirements. However, such costs remained limited.
Dissemination of knowledge has led to visibility	Partly confirmed. The visibility of the EU is not confirmed among all the beneficiaries encountered. Only the person directly involved in the negotiations of the terms of the contract with IFIs was aware about EU grants.

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- The implementation of the project went well in terms of infrastructures, except the pollution problem which has required the construction of a decontamination pool. The extension of the dyke (see picture in annex) and the construction of the external breakwater were completed in August 2013, the water works were completed in September 2013; the extension of quay (quay G) was completed in April 2014 and the electricity works in May 2014. The dredging conducted to deepen the basin has also been finished. The works undertaken by the Concessionaire to expand the handling area are on-going. The IFI loan on which the IRS is linked has been totally disbursed. The port is in charge of the maintenance of its infrastructures. Weaknesses in the Direction in charge of the maintenance had been highlighted in the feasibility study (limited budget, limited equipment). The project does not however cover this issue. (JC 9.2; interviews with IFI and beneficiary; EU-AITF, Semi-Annual monitoring report PAPN, June 2015; SOGREAH/CATRAM/PAH, Etude de developpement du PAPN – Rapport de synthèse, 2006)

- Regarding the TA component, delays have occurred because it has taken time to start (procurement procedures, information system problems, etc.). The port had to revise the whole accounting system. Now the internal audit component is in place (6 accountants and 9 computer persons have been hired for this purpose). Only 1.7M€ of the 2M€ have been used so far (February 2016). A consultant has been contracted to upgrade the Port's Enterprise Resource Planning system. Once this will be finalised, another selected consulting company will implement the new procedures for procurement, billing, cash management, fixed assets management and pay management. The Port Authority are also assisted to improve the environmental management of the port. An environmental plan has to be sent every 6 months to IFIs. The port has hired a person in charge of its environment policy. (JC 9.2-9.3; interview with IFI and beneficiary)

- In terms of impact, the following has been observed (JC 9.3; interviews with IFI and beneficiary):
  - Impact on traffic of containers: it has been boosted by the outputs of the project (from 356 085 Twenty-foot Equivalent Unit containers in 2010 to 619 692 in 2014, or a 74% increase over the period 2010-2014[18]). However, problems exist in terms of transit/access costs: there are a lot of intervenient in the port (customs, police, municipality, etc.) that stifle the traffic. The port is assisted (through a support funded by the lead IFI), on the issue of reducing these costs.
  - Impact on environment: a lot of effort is being done to overcome environmental issues, including the recruitment of an environment specialist. IFIs (especially EIB) are particularly attentive to this question. The Port is however not preoccupied by renewable energies.
  - Impact on poverty: the port has preferential tariffs for basic commodities. The current tariffs are also expected to decrease.
  - Impact on jobs: jobs have been created (users and subcontractors of the port), but this could not be quantified by the interviewees.
  - Impact on operational costs: no dredging for 3 years. A reduction in the cost of handling due to improved infrastructures has been mentioned, but not quantified by the interviewees.

- A negative impact has also been observed on other businesses of the port (10% of the activities are not related to containers), because these businesses (traffic of cement and cereals, ship repair, etc.) have now a limited space on the port. The decrease on non-containers activities has not be quantified by the interviewees. This potential negative impact was not mentioned

[18] Other factors such as the development of the transshipment can explain this increase.

in the feasibility study. For the second phase of the project, the IFI will finance the reinforcement of other traffics. An AfIF grant is envisaged for the funding (the project would require about 30-40M€) and for TA. Given the success of the PAPN, the IFIs involved are willing to provide another loan to the port. (JC 9.1; interviews with IFI)

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	Partly confirmed. The feasibility study does not mention the potential negative impact of the project on 'non-containers' activities in the port.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	Partly confirmed. The feasibility study as assessed a couple of risks, including environmental risks. However, a pollution problem has occurred during the implementation.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	Not confirmed. The PAPN has avoided the increase of its tariffs. It also applies a preferential tariff for 1st necessity goods.
Monitoring of results was uneven across projects and IFIs and often insufficient	Not confirmed. Monitoring reports are available.

Annexes

Annex A: List of persons met

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Annex B: Documents consulted

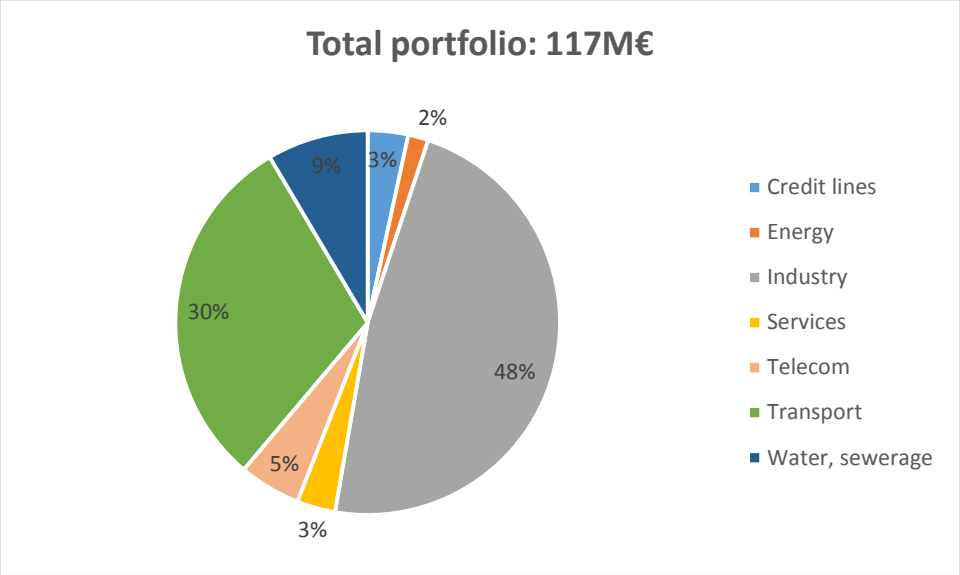
- Agreement
- Project fiche
- Feasibility study
- Monitoring reports
- Annual reports

Annex C: Table of EU ITF Blending projects (based on the Evaluation inventory file)[19]

National and regional projects	Leading institutions	Start date	End date	Amount ITF (€)	Amount Loan (€)
ASECNA	EIB	01/02/2013	31/12/2017	2,000,000	266,000,000
Port de Pointe Noire (PAPN)	AFD	01/01/2010	30/06/2014	8,600,000	157,600,000
Congo-Gabon : Brazzaville-Libreville road Transport Facilitation Project	AfDB	01/2015	12/2017	3,402,100	241,370,000
ASECNA – Programme ECNOS	EIB	01/10/2015	30/10/2016	5,000,000	15,000,000
AXIS – The African Internet Exchange System	Lux-Development	01/01/2012	31/12/2016	5,100,000	300,148
Africa Energy Guarantee Fun (AEGF)	EIB	15/10/2012	N/A	1,000,000	599,000,000
Renewable Energy Performance Platform (REPP)	EIB	01/07/2014	31/03/2019	15,000,000	182,000,000
Satellite enhanced telemedicine and e-Health for Sub-Saharan Africa (eHSA)	Lux-Development	31/12/2013	31/12/2014	4,000,000	N/A

[19] Only ASECNA and PAPN have been confirmed by the EUD. Projects in italics have "Africa" as geographic scope.

Annex D: Data on EIB sector allocations



Source: ADE, based on www.eib.org ("Finance contracts signed - Congo"), 20 January 2016.

Annex E: Picture - Extension of the dyke

Case study note – Egypt

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Abbreviations

BOO	Build-Own-Operate
BS	Budget Support
EDP	European Development Partners
EIB	European Investment Bank
EQ	Evaluation Questions
EU	European Delegation
EUD	European Union Delegation to the Arab Republic of Egypt
GoE	Government of Egypt
GWH	Gigawatt Hours
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IFI	International Financial Institution
IPP	Independent Power Producers
IWSP	Integrated Water Services Improvement Project
JC	Judgement Criteria
JICA	Japan International Cooperation Agency
KfW	KfW Development Bank
KWH	Kilowatt Hour
NIF	Neighbourhood Investment Facility
NIP	National Indicative Programme
NOPWASD	National Organization for Potable Water and Sanitary Drainage
NREA	New and Renewable Energy Authority
O&M	Operation and Maintenance
PMU	Project Management Units
PPP	Public-Private-Partnerships
TA	Technical Assistance

1 Introduction and context

1.1 Development cooperation

a) Development cooperation between Egypt and the EU in recent years was mainly based on the program cycle 2007-2013.

The program cycle 2007-2013 took place during turbulent political times in Egypt with two popular uprisings and change of government. This instability challenged the implementation of the development cooperation between the EU and Egypt. Significant budget support operations commenced from 2008 that were then halted during the 2011 uprising due to deterioration in the fulfilment of the general conditions. The projects under consideration sustained lengthy delays in some cases more than year but were able to resume and produce the expected outcomes.

The priority sectors for the 2007-2013 programme were water, energy and transport with a focus on resource efficiency and sustainable development:

- Transport: the cooperation targeted rail, road, and inland waterway infrastructure and support and aimed at increasing efficiency and implementing a number of sector reforms.
- Energy: the cooperation targeted sector reforms aimed at merging Egypt's energy market regulations with that of the EU. With rapidly expanding natural gas, as well as the potential for renewable energy production from hydro, wind and solar, policies and strategies were developed to promote energy efficiency, renewable energy, and energy savings.
- Water: the cooperation targeted the development of institutional capacity with an emphasis on decentralisation of services and improvement in performance of water and wastewater management services.

b) Egypt's development cooperation with other partners focuses mainly on energy and support to private sector.

- EIB's portfolio in Egypt is divided into energy (47%), transports (26%), credit lines (16%), water and sanitation (8%), and urban development (3%)[20].
- EBRD's investments in Egypt are relatively balanced between energy (36%), financial institutions (24%), industry, commerce and agribusiness (20%) and infrastructure (19%)[21].
- In Egypt, KfW focuses on water and irrigation infrastructures, renewable energies and education. For instance, in recent years KfW has invested €150 million in building and refurbishing primary schools[22].
- AFD's activities in Egypt are structured by three main axes: support private sector, provide water and urban infrastructures, and protect natural resources[23].

20 EIB website, 31 March 2016 ("Finance contracts signed - Egypt") – See Annex C

21 ERBD website, 31 March 2016 – See Annex C

22 https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/North-Africa-and-Middle-East/Egypt/

23 AFD website, 8 April 2016 - See Figure 3 Annex C

1.2 Methodology and projects selected

Egypt was selected for a field mission because there are a number of major blending projects have been completed or are close to completion and Egypt is a major recipient of EU development assistance. The cooperation in Egypt used a range of modalities including budget support project support as well extensive blending especially in the water and energy sectors. Egypt also provides an example of blending projects operate under fragile and conflict affected situation.

The country mission started with a review of the entire desk based information and finalisation of a list of relevant stakeholders. Almost without exception it was possible, to meet all the stakeholders identified Both EU delegation officials and national partner officials working on the same operation were interviewed and where possible more than one national partner was involved or participated in the interviews. The interviews were in some cases supplemented by telephone when further information was needed. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study. A field visit was made to the relevant sites for the 3 main projects where there were completed or partly completed works and where possible a short survey of beneficiary viewpoints (see annex D):

The evaluation focussed on 3 main projects that were completed or partly completed:

- ElZayt Wind farm (2008) – a Euro 340 million investment led by KFW with a Neighbourhood Investment Facility (NIF) investment grant of Euro 10 million and a National Indicative Programme (NIP) investment grant of 20 million. This project is now complete and a second project - a large wind farm in the Suez region - is now under preparation.
- Integrated Water Services Improvement Project (IWSP I) (2008) – a Euro 295 million investment led by KFW with a NIF technical assistance (TA) grant of 5 million and a NIP grant of Euro 29 million (of which 20 million was investment grant and 9 million TA). About 20% of the project is completed and a second larger phase has recently started with a total NIF/NIP grant of Euro 20 million.
- Electricity transmission line (2010) – a Euro 762 million investment programme led by the European Investment Bank (EIB) with a NIF grant of Euro 20 million (of which Euro 4million was reserved for TA).

2 Conclusions

2.1 Strategic relevance

The projects examined demonstrated special challenges to which blending was able to respond:

- The El Zayt wind farm as the largest wind farm in the region, the project has created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector. The 8% investment grant although low brought the price of energy close to the price of conventional generation. The blending project has played a role in triggering and sustaining an evolution in the funding of wind energy from use of pure grants (pre 2007) to concessional loans (through blending) to mobilisation of private sector finance.
    - The IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of

tariff. The project was one of the first to use loans. Waste water investments cannot in the short to medium sustain fully commercial lending due to political delays in stepping up tariffs and inadequate utility performance.

- The energy transmission project followed the investment priorities of a national master plan. The investment grant served to compensate for the low return on rural sub-stations and thus could be seen to have had a pro-poor impact. The TA was provided to ensure a high level of project management given the unprecedented scale and complexity of the project.

Blending has facilitated and sustained an evolution from grant to loans. Within energy and water sectors there has been an evolution in development cooperation from grants to loans and even mobilising private sector finance. Prior to the IWSP I and the El Zayt wind farm, most if not all development cooperation within water and waste water was granted based. Following these two blending projects, development cooperation is based on concessional loans and Public-Private-Partnerships (PPP) and Build-Own-Operate (BOO) agreements are being initiated in the water and energy sectors. The blending and earlier grant projects have contributed to demonstrating that the technology, institutional set up and government commitment to improved energy and water can support market based approaches.

Grants proportions were determined pragmatically with a mix of considerations. Although it is not explicitly documented there have been a range of calculations and considerations made to justify the grants which ultimately were determined through negotiation and the available supply of grant funding. The level of grants for the water sector are greater than for the energy sector reflecting the greater institutional challenges in the water sector. It is not possible from the information made available to exclude the possibility that the investment grants served to shorten or ease negotiations with the government and/or make the international financial institution (IFI) financial conditions more competitive and attractive than other available development finance. Nevertheless, whilst exact calculations are not easy to track down, the overall qualitative logic for the size of grant appeared reasonably sound and no extreme outliers were found in the case studies examined

2.2 Added value of blending

Blending has both supported budget support operations and has also gained from budget support. In both energy and water sectors the blending projects have supported the achievement of policy objectives and reforms of the budget support operations e.g. the energy projects have demonstrated that targets for renewable energy were feasible and the water projects have demonstrated that a decentralised implementation is feasible. The budget support has also created institutional incentives and a better enabling environment for the blending investments e.g. the policy dialogue and budget support has accelerated the process of tariff reform thus enhancing the sustainability of both energy and water investments.

Blending has led to improvements in coordination but there are still challenges. Although the bending projects have reduced the number of actors and different donor systems that need to be managed there are still opportunities to improve. The IWSP project for example has 10 different agreements and each donor has a different expiry date so it is not possible to determine a project end

date and plan accordingly. The pari passu principle and the different programme periods of the donors are an obstacle. For the electricity transmission project this problem has been

solved by issuing extensions in the expiry dates so that the project can plan with a single funding expiry date.

TA for Project Management Units (PMU) have built capacity to undertake IFI specific procurement which has helped the partners to navigate the IFI procurement and other procedures. But as well as consuming TA there are cases, for example in the IWSP project, where weak national partners at governorate level have been confused by the number of different procedures followed by the different PMUs established by different donor programmes. As well as drawing on scarce national resources the different procedures have led to long delays, required re-tendering and exposed the national partners to risks of contravening national procedures. Although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems. It can be noted that in the case of IWSP, the project was advancing a decentralised approach which involved the water companies getting involved in major procurement for the first time. For the energy sector where International Competitive Bidding (ICB) is the norm the same problem has not occurred.

2.3 Results

There is evidence of physical results, environmental benefits and contribution to institutional improvements and although attention has been given to operation and maintenance (O&M), sustainability is still vulnerable especially for the water sector projects:

- Physical results –
    - Within the energy sector the sub-stations under the electricity transmission are well constructed and there is credible operation and maintenance regime in place. The investments examined in the field (Abu Ghaleb) have been providing the expected improvements in access to electricity. The El Zayt wind farm has also been completed to specification (although the defect period is not yet over) and has already generated 0.5 gigawatt hours (GWH) of energy into the national grid. There is a 5 year operation and maintenance contract in place and training has been provided to the New and Renewable Energy Authority (NREA) staff although this training has fallen short of in-depth technical design and adjustment. Some 20% of the IWSP I water investments have been completed. The accelerated programme which was needed due to the D+3 rule has resulted in poor designs and construction as well as heavy cost overruns. O&M is vulnerable due to the poor quality of works and the slow progress on tariff reforms.
    - The projects under consideration sustained delays of 5-12 months but were generally able to resume and produce the expected outcomes. For example the sub-station in Abu Ghaleb was due to begin operations in June 2013 but only came online in November 2013. In the El Zayt wind farm, construction was due to start in early 2011 but was delayed 5 months due to the political/security situation. Additional delays of 5-6 months occurred due to technical issues that arose during construction. IWSP experienced the most significant delays. Only 20% of planned investments have been completed to date. This is due to a number of reasons including the high level of decentralization in project implementation (five agencies involved in implementation) with all construction and rehabilitation works taking place in the rural Delta governorates and the

series of quality challenges which resulted from rushed contracting done under the D+3 requirement.

- Environmental benefits –
    - All the projects have brought environmental and climate change related benefits. The wastewater projects have directly reduced pollution, the wind energy has led to lower carbon emissions and the use of clean fuel, the electricity transmission project has supported the renewable sector and has also led to substitution from diesel generation to use of cleaner gas turbine generation in the case of the Abu Ghaleb sub-station.
    - Environmental and social impact assessments were especially rigorous and mitigation measures were more scrupulously implemented due to the follow-up of the IFIs. For example, specific measures were implemented to mitigate the impact of wind farms on migrating birds (shut down radar on demand) which could be replicated elsewhere.
    - Project key performance indicators do not explicitly measure amount of offset carbon emissions or pollution levels, however these environmental benefits are embedded in the project rational and design

There are wider development benefits arising from the replicability and scaling up potential of the blending projects as well as their contribution to institutional improvements. The wind energy project and the electricity transmission project have contributed to improving the enabling environment and building confidence in adopting a market based approach to scaling up wind energy. The blending projects have contributed to the recent launch of proposals for Independent Power Producers (IPP) and BOOs which are likely to lead to the generation of many gigawatts of additional renewable energy. There are also potentials for scaling up the water sector investments as the governorate water supply and sanitation companies improve performance and a financially viable tariff is adopted. The IWSP relies on a decentralized institutional set-up for the implementation and oversight of investments. In each target governorate the local affiliated-company responsible for water and wastewater infrastructure is now involved in tendering, construction supervision and project management. This has laid the groundwork for more decentralized water sector management and can be replicated in other governorates.

The projects have targeted both the macro and pro poor level. The El Zayt wind farm provides a macro benefit to the entire sector and country. By increasing the viability and confidence in wind energy the project is contributing to the development of a more secure energy supply in the country. In addition to its environmental benefits, wind energy also has the potential to become a cheaper source of energy than traditional fossil fuels.

The energy transmission project and the water sector project also serve greater development goals but have an additional pro-poor aspects related to the targeting of underserved rural areas. For example, the sub-station in Abu Ghaleb directly benefits underprivileged communities living in the surrounding area by improving their access to electricity, improving the roads leading to the sub-station and providing temporary employment during the construction phases.

3 Findings across the evaluation questions (EQ)

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
▪ Each of the 3 projects examined (and also 2 subsequent follow up projects) had a clearly identifiable special challenge which provide arguments to justify the use of a grant • The El Zayt wind farm was the first wind farm to involve loans (earlier investments were grant based). Through its scale as the largest wind farm in the region, the project has created confidence in the technical and commercial viability of wind energy both among national authorities and the private sector. The blending project has played a role in facilitating and sustaining an evolution in the funding of wind energy from use of pure grants (pre 2007) to concessional loans (through blending) to mobilisation of private sector finance (2015) through IPPs. (JC 1.3; interviews with national partners, IFIs and BOO company) • The IWSP project fills a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff. The project was one of the first to use loans (earlier external investment in the sector was grant based) and through leverage is a step towards making more efficient use of scarce grant resources. Waste water investments cannot in the short to medium sustain fully commercial lending due to political delays in stepping up tariffs and inadequate utility performance. (JC 1.3; interviews with national partners, IFIs) • The energy transmission project followed the investment priorities of a national master plan. The investment grant served to compensate for the low return on rural sub-stations and thus could be seen to have had a pro-poor impact. The TA was provided to ensure a high level of project management given the unprecedented scale and complexity of the project. (interviews with national partners, IFIs) ▪ The new blending project for the Cairo metro is an example of a blending project that is serving a medium country priority (JC 1.2)

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	Confirmed. There is evidence in Egypt of projects with specific challenges that blending can meet: e.g. o Lowering cost of adopting renewable energy to compete with conventional sources (this has now to some extent been achieved at least for highly beneficial wind power sites) o Providing wastewater services for poor areas awaiting a step by step increase in tariff and a gradual improvement in the institutional and governance set up. o Providing a subsidy that supports the prioritisation of rural sub-stations to reach relatively unserved customers.

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
▪ The blending projects examined all supported and were well aligned with EU policies for supporting the water and energy sectors. In one of the cases not examined in detailed (Waste water for Kafr el Sheikh) it would appear that the project supported an EU goal for the Mediterranean that was not the top government priority and as a result the original national contribution envisaged was provided by the EU as an additional grant before the project went ahead. (JC 2.2; interviews with EUD, national partners, IFIs) ▪ The blending projects examined all supported and were well aligned with national policies for supporting the water and energy sectors – they followed the priorities of masterplans adopted by the national authorities (JC 2.3; interviews with EUD, national partners, IFIs)

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	Confirmed: There is evidence for the 3 examples that the blending projects are aligned to policy priorities (they were selected through government master plans) – although there was one example where the project had wider regional priorities and could only be agreed on with the injection of additional grant funds to cover the government contribution (Kafr el Shek waste water treatment plants).
That the training has been sufficient	Not confirmed: the training was found good in general terms but not specific enough on contractual issues for participants that already knew the overall topic
That IFIs and EUDs are clear on the criteria	Not confirmed: there have been many changes, adjustments and delays in the procedures and guidelines. It has caused confusion and wasted time.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)
▪ Relatively few people involved today at the EUD, IFIs or national partners are knowledgeable about how the size of the grants were established and documentation is not easily available on the details of the calculations. (J 3.1; interviews with EUD, national partners, IFIs) ▪ Explanations by those who were involved at the design stage (IFIs) provide evidence of a mix of: i) calculation to meet a shortfall in financial viability ii) calculation to provide finance on equal or better terms than the International Bank for Reconstruction and Development (IBRD), iii) negotiation with the government (who in general are reluctant to borrow for TA or to borrow where the level of concession is less than 35% and/or the interest rate in foreign currency is greater than 1 to 1.5% and iv) negotiation with providers of grant(EUD, NIF). (J3.2; interviews with the IFIs – note- an interview with the Ministry of Finance and Ministry of cooperation was considered post mission but ultimately could not be arranged) ▪ It is not possible from the information made available to exclude the possibility that the investment grants served to shorten or ease negotiations with the government and/or make the IFI financial conditions more competitive and attractive than other available development finance. Nevertheless, whilst exact calculations are not easy to track down, the overall qualitative logic for the size of grant appeared reasonably sound and no extreme outliers were found in the case studies examined. (J3.3; interviews with EUD, national partners, IFIs)

Desk hypothesis	Evidence
Assembling the financial package is pragmatic as well as quant driven	Confirmed, although the quantitative part is not well documented – evidence presented above. In the case of El Zayt windfarm TA was provided by the lead IFI so the grant was calculated to bring the cost per kilowatt hour (KWH) down to a level that is comparable to conventional electricity.
Target leverage levels should be implicit in grant request	Confirmed, the target levels are implicit but the justification is not provided in the grant request (in the new templates it is explicitly required).

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
▪ The instruments of investment grant and TA were applied appropriately (JC 4.1 and 4.2) ▪ In the case of the IWSP the TA seems very large compared to the size of the project – this could be explained by the objective of building decentralised capacity and the difficulty in making use of the National Organisation for Potable Water and Sanitary Drainage (NOPWASD) capacity due to resistance to the decentralisation reforms (JC 4.1; interviews with national partner) ▪ In the case of the electricity transmission, the investment grant and TA are reported to be significantly larger than is the case for other loan projects (World Bank, JICA, Kuwaiti and Saudi based funds) (JC 4.1,2; interviews with national partner) ▪ The partners report that the benefits of the TA in the 2 projects where TA was provided through the blending grant have been considerable. (JC 4.1,4.2; interviews with national partner)

Desk hypothesis	Evidence
TA was partner owned and demand led	Confirmed. There is strong evidence that the TA for the energy transmission project and for the national PMU for the IWSP that the TA was partner owned and demand led. For the IWSP at the governorate level, the TA appears less well owned and demand led at least from the viewpoint of the national partners - part this could reflect the weakness of governorate water companies and the introduction of a wider (and also in some quarters, controversial) mandate for the companies as part of the decentralisation efforts..
Partner informed and took part in choice of instrument	Confirmed, although in many cases the choice was obvious and the main question was the amount to be provided as TA which was usually a negotiated item.

3.5 EQ 5 Policy reform

▪ Main findings in bullet points (JC & source of information in brackets)
▪ The Government of Egypt (GoE), often with the help of external assistance, has developed new policies and incentives in support of wind and solar energy including feed-in-tariffs and a BOO system. Blending projects helped bring about this shift by demonstrating the financial and technical viability of renewable energy technologies. For example the El Zayt wind farm has been online for over a year and is fully functioning. This has built the government confidence in wind energy installations and in their own capacity to manage or regulate similar projects. (JC 5.1; interviews with EUD, national partners, IFIs) • The policy reforms have resulted in the introduction of new tariffs and significant new investments which can have an indirect benefit for blending projects. For example, oversight of new wind energy bids and installations has further strengthened the skills capacities of the regulatory agency NREA and have led to a commitment to strengthening the capacity of the national electricity grid to manage renewable energy. This can potentially translate into better management, operation and maintenance of the El Zayt wind farm (JC 5.1; interviews with Orascom, national partners and IFIs) • IWSP has helped laid the groundwork for sector reforms that will encourage greater private sector participation. Evidence of this can be found in the new law that will increase water tariffs - expected to be passed within the coming year. IWSP investments made the idea of a tariff increase

more acceptable in light of the tangible improvements to water and wastewater services in rural areas. The new tariffs in turn will contribute to the sustainably of blending investments by improving cost recovery and promoting more efficient water use (JC 5.1; interviews with national partners and IFIs)

- Blending helped leverage policy dialogue on issues like energy subsidies which are now being phased out in Egypt. To support their policy dialogue positions, EU and development partners are in a position to point to large scale demonstration of service provision using decentralised management in the case of the water sector and to the viability of wind energy in the case of the energy sector. Historically the government response to energy shortages is to increase supply (which is still the case) but now reforms are also geared toward removing market distortions that favour fossil fuels (JC 5.2; interviews with EUD, national partners, IFIs)
- Across the three projects, TA helped improve beneficiary capacity in terms of project management (financial management, oversight of construction activities, monitoring and evaluation, procurement, etc.). The impact of TA on policy is less clear. For example in both the electricity transmission project and IWSP the TA was used to improve the supervision of civil works, the implementation of monitoring systems, and improving management of environmental and social issues. Very little if any of the TA was focused on technology transfer or broader policy issues. (JC 5.3; interviews with national partners and IFIs)

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	Confirmed: The policy priorities of IFIs including the EUD were highly-coordinated and strongly conveyed to the GoE during project negotiations. Renewable energy promotion has been an EU policy priority for more than a decade but the concerted efforts of European Development Partners (EDP) in the El Zayt project highlighted the consensus that exists around this issue. Another example has to do with the coordination of IFIs on the issue of bird migration – which was an important environmental concern for the EU. The GoE is now preparing a strategy for dealing with bird migration.
Blending and Budget Support (BS) together are a more powerful factor of change than either alone	Confirmed: Reforms to the water sector began materializing when BS was complimented by projects like IWSP which allowed large scale investments in sanitation infrastructure and tangibly improved service provision for citizens. Likewise in the energy sector the introduction of market based mechanisms could not have materialized from BS operations alone because the necessary experience in managing and overseeing these investments was not there.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)
• There are indications that the preparation of blending projects has been sufficiently robust and flexible to weather the difficulties caused by the revolution and to be valid in the post-revolution changed policy environment. For example both the El Zayt wind farm and electricity transmission projects have good results and have proceeded more or less as planned. The IWSP encountered more difficulties but many of these can be attributed to the rushed contracting done under the D+3 requirement. (JC6.5; interviews with IFIs and national partners, project reports) • Feasibility studies have been thorough and have contributed to favourable conditions for implementation. The projects scrutinised have been compliant with or have exceeded national regulations where national regulations and legislation have been below international norms. For example in the IWSP project the local counterparts now use international procurement standards which have higher requirements for transparency and competition than the national procurement system. Another example is with the implementation of ESIAs. In the case of Gulf of El Zayt the environmental mitigation measures include bird protection which is not required by Egyptian law. (JC6.1; interviews with IFIs and national partners, scrutiny of documents – IWSP, El Zayt). • Most detailed designs and specifications were prepared in accordance with international standards. When normal design cycles were disturbed (e.g acceleration measures for IWSP) poor design led to delays, variations and cost increases that might not otherwise have been incurred.(JC6.2; interviews with IFIs and national partners) • Supervision of contractors has ensured adequate quality of construction and/or identification of defects within the guarantee period. Efficiency of project implementation was disrupted due to the revolution which in turn led to delayed implementation and increased (time-related) costs. For example the construction of El Zayt wind farm was delayed 5 months due to the security situation caused by the revolution (JC6.3; interviews with IFIs and national partners) • Projects have prepared plans for operation and maintenance of the investments (e.g. 5 year operation and maintenance contract for wind turbines – El Zayt) but the adequacy of the budgets are unproven (with some doubts expressed as to adequacy). Longer term viability depends upon tariff reform (for both electricity and water supply) and upon assumptions of operating costs and design life actually being achieved (JC6.4; interviews with IFIs and national partners)

Desk hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages of the project cycle:	Partly confirmed: Evidence that blending, by way of TA and consultancy services, delivers better quality than purely nationally implemented projects at design and implementation stages (e.g. poor quality design and problematic construction when IWSP accelerated projects due to D+3 considerations). Feasibility (including EIA) is more comprehensive. No evidence as regards operation (and maintenance) but from information received, adequate provision has been made.
In comparison to what other modalities (and why) does blending (not) deliver: ▪ greater sustainability ▪ greater affordability (to beneficiaries) ▪ better viability/rates of return (to IFIs) ▪ better impacts (on poverty alleviation) ▪ more focus on the needs of vulnerable groups	Partly confirmed: No hard evidence yet as regards longer term sustainability given that few projects are (only recently) completed – although the provisions made are better than for nationally executed projects. No evidence presented regarding affordability although phased increases in tariffs may actually reduce affordability albeit with a service quality that is improving (IWSP). There has been no overt targeting of the poorest or most vulnerable however some interventions (of IWSP and the electricity transmission project) in rural areas which have higher concentrations of poor (and poorest service)
EUDs are (not) directly involved in all stages of the blending cycle	Confirmed: EUD is not the lead on any blending projects and thus visibility is less than the lead agency. However, there is involvement in

	joint monitoring and dialogue even if project management is not directly managed by EUD
IFIs have (in)adequate resources for effective policy dialogue	Confirmed: IFIs are effectively involved in policy dialogue and have in most of the projects aligned the dialogue to the same agenda as the budget support.
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments)	Partly confirmed: IFI protocols are all in accordance with international norms even if not consistent among themselves. They are, however, to a greater or lesser degree, different from national regulations (especially key details of procurement law) and IFI 'No objection' is required. This sometimes gives rise to problems and delays.
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Confirmed: There are inconsistencies between partner agency/IFI (and national) procedures but developmental policies are consistent across all IFIs and agencies
That potential beneficiaries (i.e. partner governments and institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	Partially confirmed: Although there is little appreciation of the concept of blending or the expected benefits of this approach among the direct beneficiaries the national partners implementing the project from headquarters are aware although they are not generally able to give an explanation for the volume of the grant or how it was calculated or arrived at. The partners are aware of the grant and the additionality it creates but not how its size was arrived at.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	Confirmed: Mitigation measures have been applied to emerging problems but not all such responses have been effective (eg response to D+3 problem on IWSP (see above). Potentially the outcome of the proposed conditionality of 50% IWSP commitment by end 2015 for eligibility for 100% financing under IWSP 2 could give rise to similar problems.

3.7 EQ 7 Finance barriers

Not applicable for the blending projects in Egypt

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
• There is evidence that some of the TA directed to support the PMUs is used to help navigate the IFI procurement and other procedures. As well as consuming TA there are cases, for example in the IWSP project, where weak national partners at governorate level have been confused by the number of different procedures followed by the different PMUs established by different donor programmes. As well as drawing on scarce national resources the different procedures have led to long delays, required re-tendering and exposed the national partners to risks of contravening national procedures. (JC 8.2; interviews with national partner) • Although project manuals have been developed and translated, there does not appear to have been an examination of how deviations from the national systems can be minimised or even avoided by adjusting or strengthening the implementation of the national systems. (JC 8.2, interviews with national partner) • In the case of the Electricity transmission projects the use of IFI procurement procedures has caused less problems because International Competitive Bidding is the norm for the sector and thus the IFI procedures are close to normal practice. However, in this case the audit requirements have led to a two year delay in disbursement during which time the EETC has funded the project from its own sources in order to avoid delays in issuing contracts. (JC 8.2; interviews with national partner) • The IWSP bending project reduced the number of actors and different donor systems that need to be managed but there are still opportunities to improve. The IWSP project for example has 10 different

agreements and each donor has a different expiry date so it is not possible to determine a project end date and plan accordingly. This has caused a lot of frustration among the national implementing agencies. Recent efforts to stream line procedures might reduce the frustration. The electricity transmission project has the same problem although the agreements have now been extended so they all have the same expiry. The pari passu principle and the different programme periods of the donors are an obstacle to getting identical expiry dates. (JC 8.1; interviews with IFIs and national partner)

- Adherence to visibility requirements was not specifically checked, however it was noted that the Project signs clearly marked the EU at the same level as the IFIs at all 3 projects visited (photo of Abu Ghaleb sub-station) (JC 8.3, observation, EUD interview).

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	Confirmed. The preparation has been longer although in the case of Egypt much influenced by the popular uprisings. The quality of project preparation has been better (e.g. good EIAs) but in the case of the accelerated projects this was not the case.
Management costs were inferior to pure loans	Not confirmed. It appears the costs in some cases might be greater due to the existence of many actors in the same project and the imposition of the D+3 rule in the water sector projects.
Dissemination of knowledge has led to visibility	Not confirmed. No evidence of a link between the dissemination of knowledge and visibility

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- Electricity transmission – case of the Abu Ghaleb sub-station:
  - The works are complete and of a good standard. Preventative maintenance is carried out on a bi-monthly basis. Since Construction 2 years ago no operation and maintenance issues have arisen.
  - The sub-station has served to connect a large 2500 KW gas turbine power plant to the national grid and via 3 sub-sub stations has extended electricity to new consumers and improved the reliability and hours of service to existing consumers.
  - The number of complaints about electricity quality have almost disappeared since the completion of the sub-station. Electricity fluctuations would lead to malfunctions and a shortened lifespan of equipment in the adjacent farms.
  - There are tangible benefits to the mainly farming community in that they now use electricity rather than diesel generators to power the irrigation pumps. This has enabled more valuable crops such as bananas to be grown. As a result of the improved electrical supply and the roads constructed to reach the sub-stations, the land price has increased by 5 to 7 fold from the level before the project.
  - There has also been a benefit in terms of temporary labour during the construction period although this has also caused community conflict as contractors could not use all the labour available.
  - There are also environmental benefits as the gas driven electricity generation is more efficient, less polluting and emits less carbon than the diesel generators that it replaces.
  - Interviews with electricity users and famers show a mixed level of satisfaction. Although savings in pumping costs and access to close to 24 hour service is acknowledged, a dissatisfaction with government services was noted and there was a reluctance to accept that the government had done enough.
- El Zayt Windfarm project
  - All turbines commissioned (official opened 11/2015) and producing electricity into grid, 550 MWH have been produced over the last year.
  - Construction delayed due to revolution. Quality issues (e.g. foundations) are now resolved –.
  - Operation and maintenance contract for turbines for 5 years; 2 year guarantee period for electro-mechanical components

- There are some concerns over the quality of the technology provider (Gamesa)
- The technology transfer has been limited and does not allow design or adjustment.
- Aggressive site conditions mean that although there is confidence that the expected operational life of 20 years will be attained the maintenance could be heavy.

- IWSP – Husseinya WTP
  - Refurbishment of WTP has hugely increased quality of water but no increase in quantity (complaints about water quality reported to have ceased altogether in recipient 'catchment' area). However, no confirmation of numbers of beneficiaries identified at feasibility stage (the 200,000 persons identified refers to the area as a whole not to direct recipients)
  - Quality issues – some defects being repaired during contract defect liability period arising at least in part from design problems brought about by acceleration measures to avoid loss of EU grant funding under D+3. Hurried design led to many variations and cost increases on top of delays - in addition to delays due to revolution.
  - 20% of Phase I projects are completed.
  - High proportion of TA as percentage of total project cost noted by water and sanitation company. Limited technology transfer/capacity building noted also – suggested further training required (e.g. design review, procurement, contract supervision, project management)
  - Sustainability is unproven – operations and maintenance budgets unclear and subsidies to these budgets have been reduced.
  - Apart from short term employment during construction there are now an additional 5-10 work posts including technical staff in newly established laboratory.
  - Much of the land used for the IWSP was paid for by local residents or donated, a strong indication of the project's value to the community

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	Confirmed – the feasibility reports and (most) designs were thorough but there was little or no identification of potential effects or impacts beyond the outputs of the individual blending project. There were in some cases long term benefits beyond the scope of the project. For example, the policy dialogue, the new confidence among investors in the energy and water sectors, demonstration of new technologies (e.g. cutting edge wind turbines or GIS system at the sub-station) and stronger management abilities across government partners.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	Confirmed – risk assessment was limited but the greatest single impediment to project progress was more akin to 'force majeur' ie the revolutions in Egypt
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	Partly confirmed – there was little overt poverty alleviation focus although this is not to suggest that poverty alleviation impacts were absent rather that the intended outcomes were on a more macro level with potential impacts on economic and social development goals. The IWSP and the Transmission project infrastructure served rural communities directly that did not have access to reliable water and electricity supply and this focus was made possible by the grant component since these areas typically have low rates of return.
Monitoring of results was uneven across projects and IFIs and often insufficient	Not confirmed – monitoring was undertaken by the project lead although monitoring practices varied between IFIs and other partners (eg EU undertaking separate blending evaluation)

Annexes

Annex A: Persons Met

Name	Title	Contacts
EU Delegation to the ARE		
Diego Escalona,	Head of Cooperation	diego.escalona-paturel@eeas.europa.eu
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Orascom Construction		
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Annex B: Documents Consulted

Improved Water and Wastewater Services Program (IWSP)

- Agreement
- Project fiche/Application form
- Feasibility study
- Progress report
- Monitoring report
- Brief Analysis of IWSP Milestone Performance for Each AC for FY13/14 (as of 24 March 2015)

Egyptian Power Transmission Project

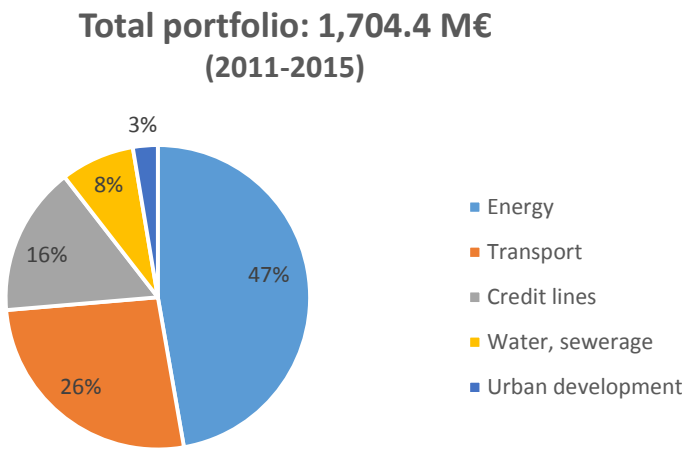
- Agreement
- Project fiche/Application form
- Feasibility study
- Progress report
- IFI appraisal report
- Environmental and Social Impact Assessment (ESIA)

200 MW Wind Farm – Gabal El Zayt

- Agreement
- Project fiche/Application form
- Feasibility study
- Progress report

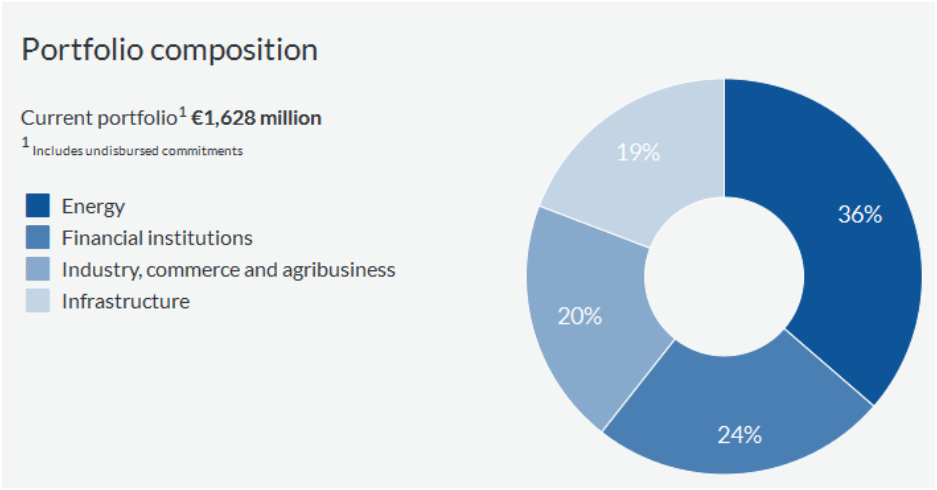
Annex C: Data on EBRD, EIB allocations by sector

Figure 1 - EIB portfolio in Egypt.



Source: ADE, based on www.eib.org ("Finance contracts signed - Egypt"), 31st of March 2016.

Figure 2 – EBRD portfolio in Egypt



Source: ERBD website, 31st of March 2016

Figure 3 - Total Commitments of AFD Group in Egypt

	2010	2011	2012	2013	2014	2015	Total
AFD	85		448,5	95	328		956,5
PROPARCO	3,6	2,1	18,6		13,3	13,7	51,3
TOTAL GROUPE	88,6	2,1	467,1	95	341,3	13,7	1007,8

Source: AFD website, 8th of April 2016

Annex D: Survey for Final Beneficiaries

Project identification (title, status, etc.)	ABU GHALEB SUBSTATION – ELECTRICITY POWER TRANSMISSION PROJECT
What is your involvement/role in this project?	
Substation employee	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Yes it has helped the poor to some extent. Everyone in the community benefitted but maybe to varying degrees.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	It appears so. Specific project details including site location and activities were not clearly communicated at the beginning.
Who are the people benefiting the project?	The community at large benefits, but landowners in the area benefit the most. Their land value went up and they received large compensation amounts during the substation construction. However, these benefits were not always passed down to the actual farmers tilling the land.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes, the higher quality and more regular electricity.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Substations like this are important to the greater development of Egypt. In the Abu Ghaleb area the substation allowed locals to switch from diesel to electricity. The expansion in electricity coverage and improved quality allowed farmers to improve their irrigation systems and plant higher-value crops like bananas and other fruits.
Have any (temporary and permanent) jobs been created?	Mostly during the construction phase, but there are also a few jobs related to the operation and maintenance of the substation
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Do you have any other comments?	

Project identification (title, status, etc.)	ABU GHALEB SUBSTATION – ELECTRICITY POWER TRANSMISSION PROJECT
What is your involvement/role in this project?	
Local Farmer (1)	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Not in any direct way
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Unsure. There was a public consultation held during the start of the project but not all local farmers were invited. They were not aware of the purpose of the project until much later.
Who are the people benefiting the project?	There is a general concern over the lack of development nationwide and the growing inequalities in income distribution. There is a perceived tendency for wealthy landowners to benefit disproportionately from projects like this.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes, most local farmers now use electricity instead of diesel, although the price of electricity is still deemed very high. One local farmer invested 60,000 EGP in installing new electricity lines.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Perhaps a small group of people directly involved in the project implementation benefited, particularly those employed at the sub-station or the labor used during the construction phase. Having more regular electricity current has also reduced the frequency of equipment malfunction.
Have any (temporary and permanent) jobs been created?	Mostly during the construction phase, but the workers were brought in from other neighboring towns instead of benefiting locals
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Do you have any other comments?	

Project identification (title, status, etc.)	ABU GHALEB SUBSTATION – ELECTRICITY POWER TRANSMISSION PROJECT
What is your involvement/role in this project?	
Local Farmer (2)	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Yes, it was constructed in a relatively poor area with lots of small farmers
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Not certain – were not involved in the initial public consultations
Who are the people benefiting the project?	Everyone in the local community but in particular small farmers whose productivity increased due to the better electricity supply
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes, previously the farm relied on diesel with limited electricity used for lighting but now they can rely fully on the grid
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Diesel was an expensive energy source but was also subject to supply shortages. When there would be a shortage, opportunistic suppliers would inflate the prices of diesel exorbitantly. Electricity from the grid is both cheaper and much more regular and reliable. Power outages still occur - but are less frequent and shorter in duration (1-2 hours instead of 4-5 hours)
Have any (temporary and permanent) jobs been created?	Not a significant amount. During the construction phase some temporary jobs were created but not for local residents
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Do you have any other comments?	

Project identification (title, status, etc.)	ABU GHALEB SUBSTATION – ELECTRICITY POWER TRANSMISSION PROJECT
What is your involvement/role in this project?	
Local Farmer (3)	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Not sure.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Local farmers were not involved in the planning stage
Who are the people benefiting the project?	Farmers, particularly those who now use electricity instead of diesel
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	The farm already had access to electricity but benefitted from the improved service
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Previously the water pumps were powered with diesel because of the weak electricity. The stronger and more regular electricity supply has allowed for improvements in irrigation and eliminated the hassle of dealing with diesel (storage and handling)
Have any (temporary and permanent) jobs been created?	Yes, during the construction phase
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Do you have any other comments?	

Project identification (title, status, etc.)	HUSSENIA WTP SHARKIA GOVERNORATE
What is your involvement/role in this project?	
Management – Sharkia AC	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Yes – hugely improved quality of output water
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Refurbishment of existing WTP which was essentially useless. Delays on construction contracts and cost over-runs
Who are the people benefiting the project?	Catchment population ~165000 persons (but not all directly receiving higher quality water
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Technical training undertaken by TA but AC requests further training in design (review), procurement, contract supervision, management
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Better quality water. turbidity reduced from >70 to ~0.017
Have any (temporary and permanent) jobs been created?	ST employment created during construction. Permanent posts in WTP operation and maintenance and laboratory ~10 persons (~30% women)
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Quality of design and construction (but acceleration measures are a factor in these problems as design was rushed)	
Do you have any other comments?	
Plant currently running at half capacity as repairs to leakages in sedimentation tank are being undertaken by the contractor under the defect liability and maintenance period	

Project identification (title, status, etc.)	HUSSENIA WTP SHARKIA GOVERNORATE
What is your involvement/role in this project?	
Operators – Hussenia WTP	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Refurbished WTP now operational
Who are the people benefiting the project?	Work force of WTP - ~15 persons (skilled and unskilled) – numbers vary depending on maintenance and operations
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes – operators are fully involved in operation of WTP
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Better quality water. turbidity reduced from >70 to ~0.017
Have any (temporary and permanent) jobs been created?	Permanent employment plus some seasonal/casual employment
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Quality of construction	
Do you have any other comments?	
Work force have better conditions – protective clothing, safety gear, facilities, eqipment	

Project identification (title, status, etc.)	HUSSENIA WTP SHARKIA GOVERNORATE
What is your involvement/role in this project?	
Representatives of beneficiaries in catchment area	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Social benefits of better health especially children as the result of much better quality water
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Much better quality water. Great reduction in number of complaints about water quality (from individuals and village representatives)
Who are the people benefiting the project?	Villages and urban population adjoining Hussenia
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Using outputs fully – more similar projects are required – land is being made available in many villages for additional WWTPs and pump stations
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Better quality water – less gastric and diarrhea ailments
Have any (temporary and permanent) jobs been created?	At WTP
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Do you have any other comments?	
Long lead in supply to WTP (eg 25-35km) means input quality is very poor (even for irrigation)	

Annex E: Pictures

Fig 1: Local Farmers at Abu Ghaleb Substation – Electricity Power Transmission Project (24.11.15)

Fig 2: Project Signage at Abu Ghaleb Substation – Electricity Power Transmission Project (24.11.15)

Fig 3: Wind Turbines at Gulf El Zayt – 200MW Wind Farm at Gulf El Zayt (25.11.15)

Case study note – Georgia

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The team visited Tbilisi for 3 days (Robert Poldermans) and 5 days (Ritha Sukadi Mata) in early December 2015, working with Nino Lavashviili, resident expert[24].

There are two projects in Georgia from the agreed sample of projects to review under the evaluation; the European Fund for South East Europe (EFSE) and the Small and Medium Enterprise Finance Facility (SMEFF). However, both of these are multi-country and managed outside Georgia, which limited in-country interviews to financial intermediaries and end-users.

It was therefore decided to add five infrastructure projects (not in the sample) to the scope of the country visit (see 1.3 below: this was reduced to 4 as appointments for the fifth could not be obtained). In retrospect this proved to be difficult as it broadened the learning curve and posed serious logistical and scheduling challenges. The team only managed interviews in Tbilisi and had no time for project site visits. This limited the depth and focus of the evaluation.

The result of this situation is a report that a) reviews the in-country part of the two sample projects EFSE and SMEFF and b) conveys an impression of other blending projects based on the limited time available. In neither case were we able to get to the target level of detail and evidence.

1 Introduction and context

Georgia ranks 5th by volume of blending projects and has received 7 NIF grants totalling €55 million. With a population of 4.5 million this amounts to €12.2 of NIF grant per capita to date.

1.1 The Economy and blending

Georgia has a long, rich and often turbulent history, and even recently suffered the impact of unrest and war (the secession of Ossetia and Abkhazia in 2009).

Economically, the country has made great strides since the breakup of the Soviet Union and displays a number of features that make it a 'classic' blending country:

- Middle income: the GNI per capita[25], using the World Bank Atlas method, is $3720, which places it at the upper end of the lower middle income category (annual per capita GNI range of $1045 - $4125). With a further 10% of GDP per capita growth Georgia could be expected to reach the 'middle income country – MIC' category. This implies that all-grant funding can be expected to diminish over time but, at the same time,

[24] This report is based on a field visit to Georgia 6-12 December – a list of people met is in Annex A. The documents consulted are listed in Annex B.

[25] According to the World Bank Atlas method (source: World Data Bank, January 2016)

Georgia's economy is not yet sufficiently advanced to sustain loan-only finance in all cases. This is a 'classic' situation for blending loans and grants.

- Transition: Georgia has energetically embraced transition from a former centrally-planned economy to a market economy – and some of its achievements in this area are notable, for example it rose in the World Bank 'Doing Business' rankings from 137th in 2004 to 24th in 2015, in this respect far outperforming major OECD economies like France and Japan. It places strong priority on private sector development and ranks number 4 in the 'ease of establishing a company' criterion of the Doing Business ranking.
- Sector priorities: in line with its transition to a market economy and given its strategic position at an east/west and north/south crossroads, Georgia places top priority on infrastructure of all kinds (transport, energy, water and sanitation, Information and Communications Technology ICT) and PSD (especially MSME finance via lines of credit through financial intermediaries). These are all classically suited to blending finance.
- Open policies: Georgia has policies that coincide with international donor priorities – also linked to the Deep and Comprehensive Free Trade Area (DCFTA) signed in 2014, as part of the European Neighbourhood Policy. This implies that energy efficiency, renewable energy, and a range of climate related topics (environment, conservation) are prominent on the national investment stage. Again, these fit directly into the objectives sought for blending finance.

1.2 Development cooperation

Georgia works actively with a wide range of development partners, including global institutions (World Bank and IFC), European institutions (especially EBRD, KfW, ADC – Austrian Development Cooperation - and EIB) and Asian institutions (especially the ADB).

a) Georgia's cooperation priorities with the EU focus on political and socio-economic reforms and institutional building.

- The EU supported these priorities during 2007-2013 through policy dialogue and sector-wide reform programmes in a number of areas, including: agriculture, regional development, criminal justice and public finance management.
- In 2008, the EU launched the Neighbourhood Investment Facility (NIF) to promote investment in the neighbourhood countries. In Georgia, the NIF has focused primarily on water, energy, environment, and private sector development. The list of blending projects financed with NIF grants is in annex C.
- The agreed focal sector priorities going forward for 2014-2020 under ENI are public administration reforms, agriculture & rural development, and justice & sector reform.

b) Georgia's development cooperation with other partners focuses on infrastructure and PSD, and several projects are co-financed by the main development partners.

- Within Georgia, KfW mainly operates in energy (42% of its portfolio), municipal infrastructures (39%) and financial sector development (16%)

- EIB's portfolio in Georgia is divided into Infrastructure (59%), credit lines (25%) and energy (16%)
- EBRD current portfolio is invested in energy (50%), financial institutions (32%), industry, commerce and agribusiness (15%), and the remaining 3% in infrastructure

The detailed data for this is summarised in annex D. It is notable that major projects tend to involve multiple donors and financial institutions that each take a share of overall project financing – for example:

- The Enguri HPP where EBRD and EIB are involved;
- The Black Sea Energy Transmission System project where KfW, EBRD, EIB and OeEB are involved.

1.3 Methodology and projects selected

Georgia is one of the 3 countries of the neighbourhood region selected for field missions. The 2 NIF regional facilities of the sample, dedicated to MSMEs, are being implemented there. The cooperation in Georgia used a range of modalities, including sector budget support project, as well blending especially in the water and energy sectors. Georgia also provides an example of how blending projects operate and contribute in transition countries.

The country mission started with a review of the entire desk based information and finalisation of a list of relevant stakeholders. Almost without exception it was possible to meet all the stakeholders identified by EU delegation officials and by the evaluation team, including IFI local offices, national partner officials and partner financial institutions. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study.

The evaluation focussed on 2 main projects that were completed or partly completed and formed part of the sample:

- The European Fund for South East Europe (EFSE - #36 BANK/EFSE/MC)
- The SME Finance Facility (SMEFF - #12 IND/SME Facility/REG)

In addition, utilising the team's presence in the country, the following four non-sample projects were reviewed briefly to understand the role and rationale of blending:

- Georgia East-West Highway
- Enguri/Vardnili HPP Rehabilitation (EHPP)
- Water supply and sewerage of Batumi and surrounding villages
- Black Sea Energy Transmission System project (BSPT)

The summarised main impressions of these non-sample projects are recorded in annex E.

2 Conclusions

2.1 Strategic relevance

a) **Georgia displays the 'typical' blending profile and without blending can be expected to have reduced access to grants in future.** As GDP per capita grows beyond $3720 per capita p.a. and the country becomes fully 'middle income' (beyond $4125 per capita p.a.), all-grant financing will become less compatible with donor policy. Yet at that stage the country is still not wealthy enough to sustain all-loan finance. As development proceeds and per capita incomes rise further, blending can be expected to contribute to the transition from grant-funded projects to loan-funded projects.

b) **The projects examined faced special challenges and blending added components to these projects that facilitated implementation and provided additionality.** There is evidence that banks lent more to SMEs, especially in risky sectors, due to the portfolio guarantee under the SMEFF. ProCredit Bank for example increased its exposure to agriculture from near zero to between 12-15%. There is further evidence of additionality for the non-sample projects which are summarised in Annex E. For example, blending grants:

- Resolved the problem of clandestine connections to main water pipes from poor households outside urban areas
- Provided up-to-date accurate water meters to reconnect households that could not afford the reconnection
- Funded environmental mitigation measures for a main electric power line to pass through a national park
- Resolved downstream issues (including silting up of the drainage channel) that facilitated the re-commissioning of major hydro-electric turbines at the Enguri dam.

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c) **The leverage generated by blending is supporting Georgia's external resource mobilisation efforts.** The sample projects are multi-country programmes and their aggregate leverage is not specific to Georgia. However, the non-sample projects displayed significant financial leverage – the ratio of grant to total financing for two projects was 10, another project had 7, and another 34. This suggests that blending assisted Georgia to mobilise more resources. There is also evidence that the amounts of grant per project were calculated specifically based on bottom-up estimates of forecast costs; for example the TA components for the Enguri dam hydro-power project and the Power Transmission project were the result of detailed calculations of tasks, duration and unit costs for the engineering and project management skills that were needed.

2.2 Added value of blending

d) **The right instrument was used in several cases.** There is evidence that the investment grants, TA and risk capital were the correct instruments for resolving the respective blending challenges that blended projects faced. For example:

- The Investment Grant provided under the Batumi Water project enabled the purchase of 60,000 new water meters which could not have been afforded otherwise. That in turn gave a basis for accurate billing for actual water consumption, which in turn considerably improved the financial performance of the municipal water company.
- The TA under both the EHPP and Power Transmission Projects funded highly specialised engineering and project management inputs without which these projects could not have gone ahead to the same level of quality and compliance with EU standards.
- The risk capital provided to EFSE as C-shares (at Fund level – not in Georgia) has also supported the mobilisation of over €400 million of private capital for financing SMEs in 15 countries in the Neighbourhood area.

However, under the SMEFF there was a comment from ProCredit Bank that they would have preferred individual guarantees from a guarantee fund for individual loans, rather than a portfolio guarantee. That might have further enhanced their risk appetite for agriculture financing, perhaps especially to new borrowers. Such individual guarantees from a guarantee fund would have required risk capital – rather than the guarantee instrument used for the portfolio guarantee.

e) **Policy dialogue was supported by several of the projects receiving a blending grant.** There are indications that blending projects were associated with a policy dialogue and also helped implement policies by pilots and demonstration effects:

- The selection of the route for the main power line to cross a major national park took place in the context of an environmental policy debate – and the blending grant funded the power line 'detour' that was devised to minimise the length of crossing the park (reduced from 11 to 4 kilometres). In addition further environmental mitigation measures were agreed which were to EU standards.
- The Batumi Water project had an impact on the water supply situation (quality, reliability, pressure) in Batumi, but also restored the financial health of the water company. That has sparked interest and a debate amongst other municipalities whether they could implement this model too and so benefit from financial as well as water supply improvements. This was partly driven by the blending grant which funded the supply and installation of new water meters.
- The portfolio guarantee facility under the SMEFF helped expand (on a small scale) bank lending to agriculture, which is a policy priority.
- More indirectly, the EHPP enabled the re-commissioning of 5 major turbines for hydro-power – a renewable energy. This was facilitated by the blending grant resolving some downstream and access issues (silting up of downstream drainage, building an access road for maintenance). The re-

commissioning in turn caused a higher percentage (around 60%) of Georgia's total electricity consumption to be renewable energy – which is in line with policy. So this is an example where the grant helped realise and implement a policy.

f) **There is also evidence that important innovations are linked to blending projects:**
   - For example, EBRD issued a local currency long-term bond in the local currency capital market as part of the SMEFF project. It is not implied that this was directly caused by the blending grant, but it formed an important part of the overall package and addresses a major weakness in the local financial markets – the relative absence of medium to long-term local currency resources.
   - Other examples are more indirect; the environmental mitigation measures to EU standards in the Power Transmission project are a 'first' in Georgia and innovative in that sense – they provide an example that could be copied. The financial model underpinning the Batumi Water project is also innovative.

g) It is not possible to attribute greater access to finance to blending. There is a theoretical argument that blending boosted the (total) volume of resources available to financial intermediaries and therefore improved access to finance, but this could not be proven. There are indications (not firm evidence) that little was achieved on this point:
   - The banking system is highly liquid and there has not been a recent shortage of foreign currency resources for lending. The added value of the lines of credit does not appear to lie in adding resources.
   - Two of the end-user interviews (see annex F) suggest that the agricultural borrowers already had banking relationships and had obtained previous loans, therefore not indicating that these were new borrowers drawn into using the formal financial sector (i.e. 'including the excluded').
   - Furthermore, there is an interview impression that sub-loans were not allocated to the smallest or financially excluded borrowers. We obtained no evidence of drawing excluded borrowers into the financial system, nor pro-poor aspects.

h) Interviews stated that the EU was visible on bill-boards and signs and also was present at significant project events, but this could not be verified (there was no travel to project sites, nor were there any project launches or other events while we were in-country – see introductory comments)**.**

2.3 Results

i) Interviews claimed and described results and outcomes of the projects using blending – but little evidence could be collected within logistical constraints (see introduction).

For the sample projects:

- There is an increase in lending to agriculture due to the portfolio guarantee facility – in one case to 15%.
- There has been innovation in mobilising long-term local currency resources (though this is in the context of the overall SMEFF project – and not directly caused by the blending grant)
- There is evidence of small businesses increasing employment (see annex F – where each of four end-user sub-borrowers report favourable employment impact)
- There is evidence of outcomes too – see again annex F where improved dental health is reported by one sub-borrower and an expansion of dairy products to serve the local market (adding cheese making to milk production).
- We obtained no evidence of the lines of credit having pro-poor dimensions.

For the non-sample projects (see annex E) interview reports of outputs and outcomes include:

- The improved water supply project in Batumi had a number of benefits that go beyond the renewal of water pipes and quality improvements:
    - The project used a comprehensive approach ('model') starting with managing the water source, resolving unofficial tapping off from source pipes (which reduced water pressure), managing water quality, metering water accurately and renewing pipes and connections, and managing sanitation to EU standards
    - The supply of 24/7 water to households without the need for pumping (the water pressure problems were resolved at source) has improved time management within households and hygiene conditions for many consumers
    - Tourism has received a major boost as hotels can offer unrationed water on all floors (previously the water pressure did not work beyond about the 4-5th floors)
    - That in turn has triggered renewed growth in the construction sector, especially for hotels
    - Interviews also referred to health benefits from improved sanitation and waste water treatment, which lowered e-coli levels in the sea and has reduced the incidence of stomach and digestive infections.
    - Financially the municipal water company has returned to profitability from being heavily loss making.
- The Power Transmission line (BSPT):
    - Enabled the export of surplus (hydro) power
    - Introduced and respected (raised) environmental standards
- The Enguri HPP (EHPP) had the overall effect of resuming supply of hydro (renewable) electricity within Georgia, by repairing the dam wall to restore the structure to safety levels compliant with EU standards and also repairing five turbines which at capacity can generate about 60% of Georgia's electricity consumption. The grant specifically funded:

- Enabling Enguri's water throughput – direct and via the pressure tunnel – to pass downstream by dredging the exit waterway and repairing the Vardnili HPP downstream (owned by a different company)
- Creating an access road to facilitate regular maintenance with heavy equipment – thereby also connecting and benefiting a range of rural communities with a combined population of up to 100,000.
- Maintaining the facility despite acute financial problems arising from the Abkhazia secession problem (as 40% of power is supplied to those regions but not paid for).

3 Findings across the evaluation questions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
▪ **Each of the 6 projects examined (2 sample projects and 4 non-sample projects) had a clearly identifiable special challenge which provide arguments to justify the use of a grant and usually created an extra component or focus within the project. That challenge was also the source of additionality (**JC 1.1, interviews & project documentation for the non-sample projects**):** • The EFSE Fund at highest level (i.e. beyond Georgia) used grants to invest in C-shares, thereby providing a risk cushion to mobilise private capital for financing MSME and housing loans. The blending additionality was mostly financial – bringing private investors into the fund. • The SMEFF project used grants to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions to finance sectors hitherto neglected due to their risk profile e.g. the agricultural sector which grew from near zero to around 12-15%. The blending additionality in this case is financial and economic. • The Batumi Water project used grants to resolve water pressure issues outside the municipality of Batumi (by connecting illegal offtakes and making them official) and ensured that all households had a new and accurate water meter. The blending additionality is financial, economic, as well as the improvement of project quality. • The Enguri HPP used the grant to resolve serious downstream issues (the silting up of the river, providing access for heavy vehicles to undertake maintenance, and re-furbishing the downstream Vardnili HPP). These could not be financed commercially as there were affordability issues and these involved different entities beyond the project sponsor e.g. the Vardnili HPP. The blending additionality is mostly in the project design and project quality and standards (maintenance and EU standards). • The Black Sea Power Transmission project used grants to achieve EU technical standards and also deal with complex environmental issues surrounding the power line's passage through a national park. Blending's additionality in this case is part financial (affordability issues for environmental mitigation), part project design and part environmental. • The Georgia East-West Highway project used grants to strengthen institutional capacities which could not be financed commercially and to reduce the cost for the government ▪ **In addition Georgia fits into the category of 'typical blending country'** (see section 1 above) which renders blending strategically relevant as a support in the transition from all-grant funding to all-loan funding (JC 1.2: macro statistics and per capita GDP)

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	Confirmed. Interviews with IFIs indicate: ▪ That their priorities, in line with Government priorities, are in capital intensive sectors where blending is well suited to provide additionality (see also annex D). This is expected to remain so for the medium-term. ▪ That PSD is a major priority, together with improving risk assessment skills in the banking system and working to boost the

	supply of long-term local currency resources. Blending can provide additionality in these areas via TA, risk capital and guarantees.

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
Overall, there is evidence that projects are aligned with policy priorities from the IFIs, donors and Government: ▪ Blending is focused on capital intensive energy, transport and water/sanitation which is in line with Government policy (JC 2.3: interviews with IFIs, data in annexes C and D) ▪ Blending is also supporting PSD through two regional financial projects (EFSE and SMEFF) which is in line with Government policy to grow the private sector and deepen the financial sector (JC 2.3: interviews with IFIs) ▪ There has been a Blending training seminar at the EUD in 2013 attended by key staff from Georgia as well as the region, and staff have attended seminars in Brussels (JC 2.2: interview at EUD)

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	Confirmed: the projects examined supported this conclusion – with EFSE and SMEFF funding MSMEs in general (thereby supporting PSD) and also the agricultural sector in particular. Furthermore the non-sample projects also supported the policy objectives of EU standards, renewable energy and environmental concerns. However, while the EFSE and SMEFF projects aimed generally at the policy of PSD support, it was not clear whether they reached the smallest and most excluded. In that sense their 'improving access to finance' objective may not have been targeted or achieved (see also EQ7).
That the training has been sufficient	Not confirmed: EUD staff have attended training but there was no evidence that either IFI staff or beneficiary PIU teams had received training in blending. The Power Transmission Project suffered from a procedural and contractual issue (passing of a deadline for reimbursement of two vehicles) which might have been avoided if there had been greater awareness of procedures.
That IFIs and EUDs are clear on the criteria	Generally confirmed: overall there is clarity what blending can be used for but greater clarity might have led to more creativity in the application of blending grants (for example in SMEFF – see EQ7)

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)
There is evidence that the blending grant at EFSE attracted additional funding at Fund level. For other projects, the grants financed specific improvements and components and were associated with – even if they did not mobilise – larger loans. At Fund level, EU 'C' shares have attracted over €400 million in specialist private funding for EFSE. However for other projects the leverage of other funds (respectively 7, 10, 10 and 34) is more a question of being 'associated with' rather than directly 'attracting, or mobilising, other money'. However, there is an element of 'making money move' i.e. the IFI projects were ready and funds were available, but the specific problems referred to under EQ1 had to be resolved before that project could go ahead. So our view based on interviews is that it helped to move forward, though it did not attract money

not already targeting the project (JC 3.4: interviews at EUD, IFIs and leverage calculations – Annex C).

The sizes of the grants were appropriate, though calculated in two different ways. For the two financial projects, EFSE and SMEFF, the grant sizes were determined by 'the size of the programme' as well as by assumed risk cushions required in order to introduce private investors. These are judgements, not exact calculations. For the other non-sample infrastructure projects, technical parameters allowed exact calculation of grant amounts e.g. the number of man-months of project management engineers, the cost of 60,000 water meters, and so on (JC 3.3: interviews and document review)

Desk hypothesis	Evidence
Assembling the financial package is pragmatic as well as quant driven	Confirmed. For the two financial programmes, there were pragmatic judgements based on perceived risk appetites (of investors for EFSE, and of lenders for SMEFF). For the non-sample projects the calculations were driven by estimated costs e.g. of the specific environmental mitigation measure of restoring top soil for the Power Transmission Project.
Target leverage levels should be implicit in grant request	Confirmed for EFSE and SMEFF but not for the other projects. The former required judgements of how much grant was needed to secure additional (loan) funding, but the latter were technical calculations that were not trying to achieve target levels of leverage. Having said that, the leverage levels were impressive – for the non-sample projects this was 10 in two cases and 34 in another.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)

The instruments were appropriate, with one question mark. For:

- EFSE risk capital invested as first-loss shares served to attract private investors
- Batumi Water an investment grant served to fund the water meters and formal connections to the water grid – both essential elements to ensure the viability of the project
- Enguri HPP an investment grant served to finance the access road and resolve the silting up problem, and TA afforded the essential technical expertise to rehabilitate the dam and the turbines to EU standards
- The Black Sea Power transmission project the investment grant funded the 'detour' of the power line to reduce the crossing distance of the national park, and TA brought the project management skills required.
- The East-West Highway project used its investment grant to cover affordability issues
- For the SMEFF there is a question mark whether risk capital should have been used to set up a guarantee fund that could provide individual guarantees to specific borrowers.

(JCs 4.1, 4.2 and 4.3: interviews with EUD, IFIs, PIUs and team document review)

Desk hypothesis	Evidence
TA was partner owned and demand led	Presumed confirmed. In several cases there was praise for the work of the consultants (e.g. the Black Sea Power Transmission project) which indicates joint ownership and alignment of the TA between the main sponsor and the PIUs.

Partner informed and took part in choice of instrument	Presumed confirmed. In all cases the projects aligned behind the uses of the grant and there seemed to be no issues about the appropriateness of the instrument.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)
Although the blending projects align with national priorities (see EQ2) and touch on policy issues, they have not (yet?) achieved new policy frameworks or standards. In EQ2 the alignment with priorities was confirmed, but there are no cases of new policies emerging from blending projects: ▪ The Black Sea Power Transmission project has surfaced a range of environmental issues but this has not yet lead to a framework or a policy[26], and the Agency for Protected Areas (e.g. national parks) does not have a framework within which to negotiate with Energotrans the owner of the transmission line. ▪ The Enguri HPP – although contributing to climate goals – has not lead to a policy on renewable energy. (JCs 5.1-5.3: briefing EUD and interviews at beneficiaries)

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	Probable: Not confirmed – see above examples.
Blending and BS together are a more powerful factor of change than either alone	Not confirmed.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)
Interviews confirm project quality, but verification based on site visits was not possible. Overall the quality of the reviewed projects is confirmed in various ways: • The four non-sample projects had high level in-depth feasibility studies which adhered to EU standards (especially mentioned for the EHPP and the BSPT projects) – JC 6.1; interviews with PIUs. • Standards are EU standards (e.g. for the environmental concerns with the power lines passing through the national park, and the safety of the Enguri dam structure which at 271.5 metres high is the second highest arc dam in the world – and cracks or structural issues would have catastrophic consequences) – JC 6.2; interviews with PIUs • Technical supervision appears to be high and project implementation entities were satisfied that the TA had produced the right feasibility and created the right mix of PIU teams and

[26] KfW is aware of the absence of such a framework and is currently working on this. It's TA measure did not aim for a policy reform.

technical experts to make project management proceed smoothly and according to plan. However, this could not be verified on-site (JCs 6.3 & 6.4: interviews at PIUs)

- The designs display thoroughness and some innovation – which were made possible by the blending grants (JC 6.5; interviews and reviews of project designs). This is a difficult judgement and repeats what has been said for other EQs:
    - For example, at the Enguri HPP the issues 'beyond the project' preventing the re-commissioning of the 5 main turbines. These were resolved by the blending grant (silting up, recommissioning the Nardvili HPP downstream, resolving access difficulties). It is innovative to go beyond the project – and the project entity – in this way.
    - Similarly for Batumi Water project, the key elements 'beyond the project – and beyond the project entity' were addressed. Again this displays a measure of innovation – that the project does not stop with a narrow perspective on the water pipes and the municipality, but needs to adopt a wider perspective, addressing water source and pressure problems beyond the municipal boundary.
    - As part of the SMEFF there was also innovation – the issuing of long-term local currency bonds. Although this forms part of the overall 'package' of SME financing measures (resources, guarantee, advice) this innovation was not triggered by the blending grant in the same way as the examples above.

Desk hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages of the project cycle:	Confirmed indirectly. As illustrated by the examples above for JC6.5, the blending grants enabled the project design teams to address all angles and go 'beyond the project' to resolve issues that then enabled the project to go ahead. Such issues were beyond the jurisdiction of the project sponsor and could only be financed by a grant.
In comparison to what other modalities (and why) does blending (not) deliver: ▪ greater sustainability ▪ greater affordability (to beneficiaries) ▪ better viability/rates of return (to IFIs) ▪ better impacts (on poverty alleviation) ▪ - more focus on the needs of vulnerable groups	Confirmed for affordability. By definition, the investment grants for the Enguri HPP, Black Sea Power transmission and East-West highway projects were examples of the grant enhancing the affordability of the project to the project entities. The SMEFF subsidy is good example of the blending grant making the RE/EE investment more affordable for the consumer/borrower. Not confirmed for the other variables. For example, although there was evidence of securing and expanding employment under EFSE and SMEFF sub-loans, and poor rural communities received improved transport access from the Enguri HPP access road, there is no evidence that these impacts were better than what might have been achieved with other forms of funding.
EUDs are (not) directly involved in all stages of the blending cycle	The EUD did not directly manage the EFSE project.
IFIs have (in)adequate resources for effective policy dialogue	Not observed and unable to comment. KfW and EBRD have substantial offices in Tbilisi, but the resources available for policy dialogue could not be assessed.
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the	Not observed and unable to comment.

various stages of the project cycle (including response to non-delivery of commitments)	
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Not observed. It is possible that in one case there were differences of perspective between the EU and an IFI – but this concerned an administrative issue for BSPT (problems surrounding the reimbursement of two project vehicles).
That potential beneficiaries (i.e. partner governments and institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	Confirmed that the various parties do understand blending. The project designs described above confirm that special challenges were resolved by the grant and blending delivered additionality.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	Partly confirmed that IFIs have worked to resolve problems during implementation, for example resolving the environmental issues with mitigation measures for the BSPT project.

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)

At high level, there is some evidence that blending projects have contributed to reduce finance barriers for MSMEs: (JC 7.1: interviews IFIs and financial intermediaries)

- NIF grant C-shares in EFSE have contributed to attract private A shares at fund level and make FX funds available for MSMEs
- Regarding the SMEFF, there is slight evidence that the grant and its components (TA, subsidy, individual and portfolio guarantees) helped MFIs to enter agriculture segment

However, there is no convincing evidences that the beneficiaries would not have been reached without blending projects. (JC7.2: interviews with IFIs and financial intermediaries) Indeed:

- In the case of EFSE, the main PFI was already targeting MSMEs, and blending funds have not impacted its strategy toward this segment.
- Regarding SMEFF, PFIs have mentioned that the first loss cushion (guarantees) has not influenced their risk parameters towards MSMEs significantly. It was also not evidenced that the beneficiaries were the smallest and the most excluded MSMEs. Furthermore, the subsidy may have been achieved anyway by the contractual obligation to pass on the EIB borrowing rate advantage to final (sub-) borrowers.

Furthermore, it appears that the grants should have been used more creatively, to be adapted to the situation faced by the financial sector in Georgia (JC7.3: interviews IFIs and financial intermediaries) as:

- FX resources were not the main issue for FI (banks are liquid and highly dollarized), but GEL local currency term resources were. However blending projects mainly provided FX

funds to PFIs. In this regard, it is worth mentioning again the local currency bond pioneered by EBRD under the SMEFF ▪ PFIs mentioned that other forms of credit enhancement e.g. individual credit guarantees would have been preferable to the portfolio first loss cushion.	
Desk hypothesis	**Evidence**
FIs have improved their capacities in terms of assessing MSMEs' risk	Confirmed for MFIs, not for banks: SMEFF: MFIs have benefitted from TA (trainings) and have implemented efficient processes toward MSMEs in the agricultural segment. No TA provided to banks (according to a FI, it wasn't needed). EFSE: a FI has received training on agricultural loans (agroscoring methodology). The FI has reported that the rejection rate of pre-selected applications has been stable over the last year (2-4%) for the SME segment. No evidence of the impact of EFSE funds on this rate.
FIs have developed a strategy or revised their existing strategies towards the MSME segment (new products, specific trainings, new branches, etc.)	Confirmed for MFIs, not for banks: SMEFF: ▪ MFIs have entered the agricultural segment ▪ The first loss cushion did not get banks to shift their risk parameters and accept more risk. EFSE: no evidence of an impact on banks strategy towards MSME segment
TA have contributed to improve financial literacy levels among MSMEs' managers	No evidence. A FI (SMEFF) has reported a low level of financial literacy from their MSE clients. Educational activities regarding financial products and agricultural techniques have been developed by the FI (no TA needed by the FI from the SMEFF). SMEs are perceived to be less conservative regarding agricultural techniques than MSEs.
Take up rates of guarantees and collateral-substitutes products have decreased	SMEFF: a FI mentioned that this cushion is the last resort in case of problem, given the transaction costs (time, procedures, etc.) compared to the amounts at stake (35-50000€ on a 10M€ portfolio). The FI also mentioned that the cushion may be needed in the future as a deterioration of the portfolio is expected in a near future.
Advantages to use one instrument or another in terms of improving FIs capacity to deal with MSMEs	SMEFF: ▪ TA relevant for MFIs, not for banks

	▪ Banks have mentioned that other forms of (individual) credit enhancement via credit guarantees would be preferable than the first loss cushion
Advantages to use one instrument or another in terms of improving MSMEs capacity to deal with FIs	No info

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
It was difficult to obtain detailed information on this but the following impressions emerged: **There is cooperation but also cases of procedural difficulties which stem from the NIF grant rules**. (JC 8.1: interviews at EUD and IFIs). The IFIs work with the EU on project development. However, there are cases where clarity is not at required levels: for example the Black Sea Power transmission project a serious problem concerning the purchase of two project cars and missing a deadline for requesting an extension lead to major difficulties and a delay of over a year – as well as damaged relations between project entities. **There are interview impressions that blending projects are more time consuming to process, although there is no data to confirm this** (JC 8.2: interviews at IFIs and EUD). There is more complexity with blending projects as there are more components and these take considerable time to design and evaluate. Specifically this issue was mentioned by a PFI regarding the guarantee cushion from the SMEFF. **The visibility of the EU is uneven and in certain cases inadequate**. (JC 8.3: interviews EUD, IFIs and PIUs) Although interviews indicate that the EU is invited to some key events, there are situations like the official launch of the East West Highway where the EU was not even mentioned despite providing a €20 million grant. For the EFSE and SMEFF projects the EU role is deep in the background (at Fund level in Luxembourg for EFSE, and with the IFIs for SMEFF). That in turn makes the EU invisible to end-users and some financial intermediaries. Set against that we were informed in interviews that the EU flag logo was present on project bill-boards for EHPP but this is unconfirmed as no site visit could be made.

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	Confirmed that it is time consuming. The 'leading to better projects' is inferred from: a) The value added of high technical specifications – cited by PIUs and other project stakeholders b) The results obtained by the project.
Management costs were inferior to pure loans	Not confirmed. To the contrary the complexity of the projects and the need for PIUs and highly specialised technical teams indicated the opposite.
Dissemination of knowledge has led to visibility	Not confirmed. No evidence of a link between the dissemination of knowledge and visibility

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)
In the absence of site visits the results mentioned below are only based on interview information. The achievements per project are detailed in annex E. Concerning the JCs: **There are examples of improved access to socio-economic infrastructure from blending projects. (**JC 9.1: interview at IFI). Batumi water re-connected all households and placed accurate meters; improving access to an improved service. The access road for the EHPP serves 100,000 people in remote areas that previously had poor transport connectivity. **There are no indications of major deviations from plan in the construction of infrastructure projects** (JC 9.2: interviews at IFIs and PIUs). None of the interviews mentioned issues in this respect; to the contrary two praised the role of the project management consultants for keeping implementation 'on track' (EHPP and BSPT). **The infrastructure related projects are delivering development results** (JC9.3; interviews at IFIs and PIUs). These are specified in annex E –examples include a boost to tourism and construction in the city of Batumi resulting from the improved water service and more reliable electricity supply from the EHPP. In addition the BSPT allows the export of electric power to Turkey. **Of the sample reviewed, only the EHPP is expected to have a climate impact (**JC9.4: interviews PIU) By rehabilitating the hydro turbines, the renewable energy share of total Georgian power generation and consumption will rise, thereby reducing the thermal power generation as a percentage of the total. There are no observations on JCs 9.5 and 9.6. For JCs 9.7-9.9 the reader is referred to EQ7 above.

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	No observations or evidence.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	No substantive evidence. The only example that relates to this hypothesis is that of the environmental issue of the BSPT line crossing the national park – where perhaps the full impact was not anticipated but mitigating measures were put in place. The scope or effectiveness of these could not be assessed in the absence of a site visit.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	No observations.
Monitoring of results was uneven across projects and IFIs and often insufficient	No observations.

Annexes

Annex A: Persons Met

Name	Title	Contacts
EU Delegation to Georgia		
Muriel Lambert de Rouvroit	Programme Manager Energy, Transport, Infrastructure	Muriel.LAMBERT-DE-ROUVROIT@eeas.europa.eu
Francesca Mazzucco	Project Manager Trade and Private Sector Development	francesca.mazzucco@eeas.europa.eu
EIB		
Sébastien de Sampigny	Resident representative (Regional Representation for the South Caucasus)	sdesampigny@eib.org
Julie Filler (via conference call)	In charge of the implementation and the monitoring of the SME FF	
Eefje Schmit (via conference call)	Head of Trust Funds and Financing Partnerships Unit	e.schmid@eib.org
KfW		
Lars Oermann	Director South Caucasus Regional Office	Lars.oermann@kfw.de
Enrico Spiller	Director Sector Coordination South Caucasus, Energy-Transport	Enrico.spiller@kfw.de
Levan Tsitskishvili	Senior Project Coordinator (Water supply and sewerage of Batumi and surrounding villages)	levan.tsitskishvili@kfw.de
EBRD		
Irakli Mekvabishvili	Senior Banker Financial Institutions	Mekvabii@ebrd.com
Mariam Javakhishvili	Associate Banker	JavakhiM@ebrd.com
EFSE		
Nino Vardiashvili (Finance in motion)	Investment Officer	n.vardiashvili@finance-in-motion.com
Ivane Lekvtadze (Finance in motion)	Investment Analyst	i.lekvtadze@finance-in-motion.com
Procredit Bank		
Sofia Kordzakhia	Director – Head Office	s.kordzakhia@procreditbank.ge
Alex Matua	Director – Head Office	a.matua@procreditbank.ge
Ketevan Khuskivadze	Director – Head Office	k.khuskivadze@procreditbank.ge
David Gabelashvili	Member of Extended Management – Head Office	d.gabelashvili@procreditbank.ge
Bank of Georgia		
Natia Jeiranashvili	Associate at Funding Department	njeiranashvili@bog.ge
Ekaterina Shavgulidze	Head of Investor Relations	eshavgulidze@bgeo.com
Giorgi Arveladze	MSME Coordinator Solo & MSME Banking	garveladze@bog.ge

GE-01 Enguri/Vardnili HPP Rehabilitation – grant		
Malkhaz Tskvitishvili (Engurhesi Ltd)	Project Manager	malkhaz@caucasus.net
Georgia East-West Highway		
Nugzar Gasviani	Ministry of Regional development and infrastructure, Roads department; First Deputy Chairman	ngasviani@yahoo.com
Nikos Papunioli		n.papounioli@gmail.com
Georgian State Electrosystem / Energotrans		
Kakha Sekhniashvili (Energotrans)	Director	k.sekhniashvili@energotrans.com.ge
Maia Gikoshvili (Energotrans)	Deputy Director – Project Management	m.gikoshvili@energotrans.com.ge

Annex B: Documents Consulted

KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)

- Agreement
- Project fiche
- Progress reports
- Collected during the field mission:
    - BGEO Group (Holding company of Bank of Georgia), "Capturing Growth Opportunities, Investor Presentation: 3Q15 & 9M15 results", November 2015

EBRD-13 SME Facility - EBRD / KfW window

- Agreement
- Project fiche
- Feasibility study
- Progress reports

Additional documents collected during the field mission:

- EBRD, "Georgia at a glance", 30 September 2015
- EBRD, "Economic inclusion", 2014
- EIB; "Factsheet – EIB financing in the Eastern Partnership", February 2015
- EIB, "Press release – EIB increases its support for SME and MidCap sector in Georgia", 14 October 2015
- KfW, "KfW in Georgia"
- Ministry of regional development and infrastructure of Georgia/ Roads Department of Georgia, "2010-2014 perspective projects - Investment program for roads development in Georgia", 2010

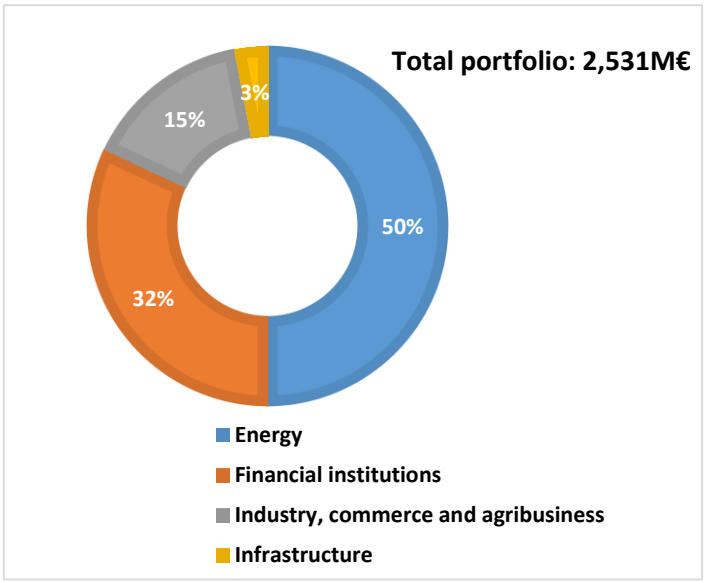
Annex C: Table of EU NIF Blending projects in Georgia (based on the Evaluation inventory file)

National and regional projects	Leading Institution	Start date	End date	Amount NIF	Amount Loan
KfW-01 Black Sea Energy Transmission System project - Early engineer, design and project management services for the construction of a new 500/400 kV substation with a "back-to-back" facility at the Turkish border, construction of a new 500kV transmission line, adaption of 2 further substations in GE.	KFW	22/12/2008	31/12/2013	8.260.000	280.000.000
EBRD-13 SME Facility - EBRD / KfW window	EBRD	22/12/2010	22/12/2019	10.200.000	100.000.000
EIB-04 SME Finance Facility - EIB window	EBRD	22/12/2010	22/12/2020	5.200.000	50.000.000
KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE)	KfW	17/12/2009	17/12/2019	5.100.000	70.000.000
Enguri Hydropower Plant Rehabilitation	EBRD	21/12/2010	21/12/2015	1.040.000	47.000.000
	Ministry of Energy	24/01/2011	23/01/2016	4.200.000	
Contribution to East West Georgia Highway - Samtredia - Grigoleti-Kobuleti	EIB	11/05/2012	10/5/2017	20.400.000	592.140.000
NIF-EIB-03 Technical Assistance for the Water Infrastructure Modernisation and Development Project	EIB	10/09/2010	10/09/2016	4.160.000	86.000.000
NIF-funded components of the project of Rehabilitation of Municipal Infrastructure Facilities in Batumi – Phase III (Water supply and sewerage of Batumi and surrounding villages)	KfW	21/07/2011	20/07/2016	4.200.000	67.000.000
Regional Energy Efficiency Programme for Corporate sector- project preparation, such as energy audits, as well as support during project implementation, such as management training and project management assistance.	EBRD	11/08/2009	10/08/2016	2.140.000	302.000.000
Municipal Project Support Facility	EIB	No info	30/06/2020	12.300.000	530.000.000
EBRD-04 Framework for capacity building to support financial intermediaries in Azerbaijan and Georgia	EBRD	19/06/2009	31/12/2016	3.030.000	38.250.000

Green for Growth – Extension to NIF East region	KfW	20/12/2013	19/12/2018	13.350.000	166.100.000
Caucasus sustainable energy finance facility : Implementation support	EBRD	20/12/2013	02/06/2020	5.300.000	64.600.000
Water Infrastructure Modernisation Project – Phase II	EIB	13/06/2014	12/12/2017	8.200.000	80.000.000
Integrated Solid Waste Management in the Southern Caucasus	KfW	2/12/2013	1/12/2018	6.240.000	66.000.000
DCFTA SME Direct Finance Facility	EBRD	01/09/2014	31/08/2024	10.220.000	61.500.000
Implementation of EBRD Small Business Support (SBS) programmes – Enterprise growth Programme (EGP) and Business Advisory Services (BAS) – in the Eastern Partnership (EaP) countries Phase I	EBRD	30/08/2013	30/08/2016	8.000.000	10.400.000
Southern and Eastern Mediterranean project Preparation Framework to fast-start EBRD support to the region	EBRD	28/11/2011	27/11/2017	15.300.000	15.000.000

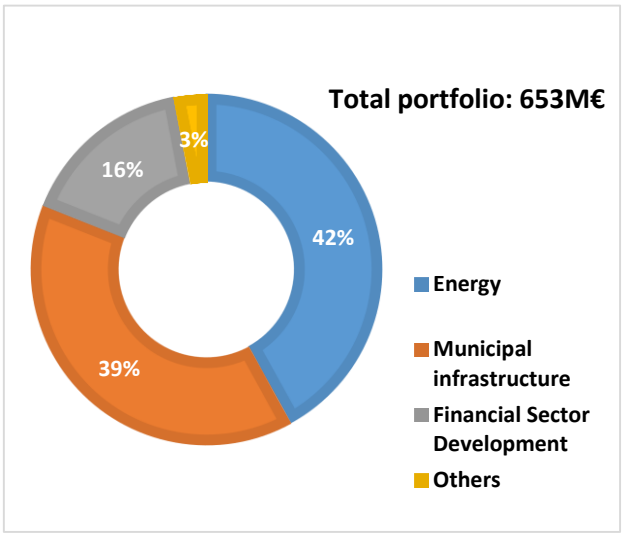
Annex D: Data on KfW, EBRD and EIB sector allocations

Figure 1 – EBRD Portfolio composition in Georgia



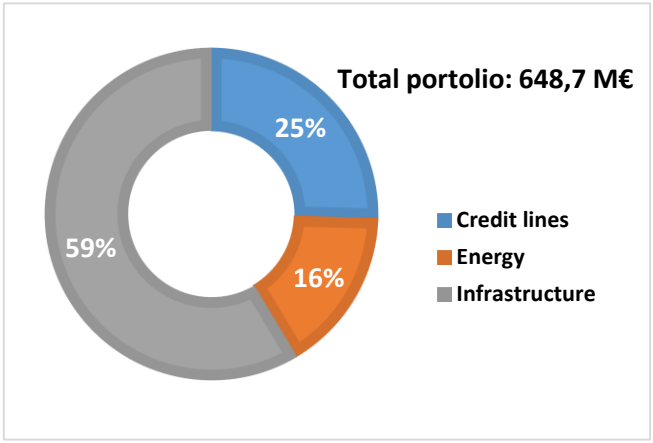
Source: EBRD, "Georgia at a glance", 30 September 2015

Figure 2 – KfW Portfolio composition in Georgia



Source: KfW, "KfW in Georgia" (Total portfolio 1993-2003)

Figure 3 – EIB Portfolio composition in Georgia



Source: ADE, based on www.eib.org ("Finance contracts signed – Georgia"), 10 December 2015

Annex E: Summary of sample and non-sample projects

Sample project	Name: EFSE Total financing: 70 M€ IFI financing: 60M€ (KfW, Armenia, Azerbaijan, OeEB) NIF grant (€ and %): 10M€ (14.2%)
Policy objective	To finance MSMEs in risky economies
Project objective	To cover the financial needs of the economy (especially MSEs and private households)
Blending challenge	To mobilise private funding
Use of blending grant	The grant was used for subscribing C-shares
Project outcomes & ERR	The project's achievements include: ▪ C-shares (which include blending funds) have already attracted 400M€ of A-shares (private funds) ▪ 125,000 sub-loans disbursed in 2014, 31% in agriculture It's difficult to isolate the contribution of the project at PFIs level in terms of reaching MSEs (in Georgia).

Sample project	Name: SMEFF Total financing: 300M€ IFI financing: 270 M€ (EBRD, EIB, KfW) NIF grant (€ and %): 30M€ (10%)
Policy objective	To finance MSMEs in risky economies
Project objective	To improve conditions and access for MSMEs to the credit market
Blending challenge	To incentivise PFIs to enhance their lending to MSMEs
Use of blending grant	The grant was used for: a) Strengthening institutional capacities of MFIs in the area of agricultural finance (TA) b) Providing a loss risk sharing cushion (50% of individual loan, up to 10% of the loan portfolio)
Project outcomes & ERR	The project's achievements include: ▪ An increase of MFIs' agricultural portfolio (up to 13.5% of increase) ▪ An increase of the number of agricultural clients Achievements on other MSMEs' segments are less clear (difficult to isolate the contribution of the grant to the results of the overall portfolio of PFIs).

Non-sample project	Name: Water supply Batumi Municipality Total cost: 47 200 000€ IFI financing: 42 500 000€ NIF grant (€ and %): 4 700 000€nn (10%)
Policy objective	To provide clean potable water to a community of 126,000 inhabitants and radically improve sanitation systems to reach EU standards
Project objective	To reduce non-metered water loss (from faulty pipes – estimated to be up to 80% of water) and provide 24/7 water supply to all households
Blending challenge	To address: a) the water sourcing problem outside the municipality of Batumi and b) the financial issues arising from lack of water meters.
Use of blending grant	The grant was used for: c) Re-connecting, officially, illegal connections near the river and outside the municipal boundaries which reduced the water pressure so that it needed pumping in the city d) Providing new water meters and installing these to all 60,000 offtake consumers in the municipality
Project outcomes & ERR	The project's achievements include: ▪ The pipe network is renewed and water loss is reduced to negligible levels ▪ Water pressure is maintained and expensive pumping is not required ▪ All households are connected and metered – and are willing to pay for a 24/7 service (previously some had only 2 hours of water a day) ▪ The financial health of the Municipal Water Company is restored ▪ Sanitation standards are high and waste is treated before exit to the Black Sea. This has brought significant other benefits including the restoration of the construction sector (high rise could not be built as water didn't reach the higher floors), a boom in the tourist sector, household hygiene and efficiency benefits, and reduction in e-coli infections due to contaminated sea water for tourism (interview statements not verified).

Non-sample project	Name: Enguri/Vardnili Hydro-power rehabilitation Total cost: 52 240 000€ IFI financing: 47 000 000€ NIF grant (€ and %):5 240 000€ (10%)
Policy objective	To boost the share of renewable energy (RE) in total national power consumption
Project objective	To restore a major HEP facility to working order and repair the dam wall in order to raise safety standards and reduce risk
Blending challenge	To resolve downstream and access problems that prevent the Enguri HPP from working normally.
Use of blending grant	The grant was used for: a) Restoring the downstream Vardnili HPP to enable the main HPP at the Enguri dam to work (otherwise the water from the Enguri dam cannot pass through the pressure tunnel) b) Dredging the waste water channel so that the Enguri dam can work to capacity c) Building an access road so that all facilities could be maintained.
Project outcomes & ERR	The project's achievements include: ▪ Repairing the Enguri dam wall to restore the structure to safety levels compliant with EU standards ▪ Repairing five turbines at the Enguri HPP so that at capacity they can generate about 60% of Georgia's electricity consumption ▪ Enabling Enguri's water throughput – direct and via the pressure tunnel – to pass downstream by dredging the exit waterway and repairing the Vardnili HPP ▪ Creating an access road to facilitate regular maintenance with heavy equipment – thereby also connecting and benefiting a range of rural communities with a combined population of up to 100,000 ▪ Maintaining the facility despite acute financial problems arising from the Abkhazia secession problem (as 40% of power is supplied to those regions but not paid for). This has brought significant socio-economic benefits, including jobs creation (mainly temporary, but also permanent jobs (not counted)), and better access to hospitals and schools (no statistical analysis was possible).
Non-sample project	Name: Black-Sea Power Transmission System Total cost: 288 260 000€ IFI financing: 280 000 000€ NIF grant (€ and %): 8 260 000€ (2.9%)

Policy objective	To create a national power distribution grid harnessing renewable energy and with potential to export power to Turkey
Project objective	To build main power lines and connect to the Turkish grid with a sub-station
Blending challenge	To address complex technical management issues (within affordability and debt constraints) and deal with a pressing environmental problem
Use of blending grant	The grant was used for: a) Hiring technical consultants who undertook feasibility and implementation management tasks to EU standards b) Re-routing the power line to take a longer route – thereby minimising the crossing of a national park c) Implementing environmental mitigation measures
Project outcomes & ERR	The project's achievements include: ▪ Expanding and completing the national power transmission grid – linking to the Enguri dam for distributing renewable energy and reaching rural communities ▪ Reaching the Turkish border and creating the sub-station that enables sale of electricity into the Turkish grid ▪ Maintaining the highest (and EU) standards for all technical and project management aspects ▪ Minimising the crossing of the national park to only 4 kilometres (instead of 11kms) ▪ Implementing a range of environment-damage mitigation measures such as top soil replacement, building protective walls to prevent erosion etc. This has brought significant socio-economic benefits, including jobs creation (25 permanent jobs, around 300 workers on the construction), and some increased trading (commerce) activities along the line (interview statements not verifiable).

Non-sample project	Name: Georgia East-West Highway Total cost: 612 540 000€ IFI financing:592 140 000€ NIF grant (€ and %): 20 000 000€ (3.2%)
Policy objective	*To develop Georgia's competitiveness as a transit country by improving its transport corridors*
Project objective	Upgrade and improvement of the westernmost part of the East-West highway connecting Zestaponi with Batumi-South
Blending challenge	To address technical and affordability issues (institutional capacities and financial constraints)
Use of blending grant	The grant was used for: a) strengthening institutional capacities b) financing consultancies related to the constructions
Project outcomes & ERR	The project's achievement will be the construction of 68 kilometres of additional road (not completed). This has brought social impacts, as min.70% of construction workers are local people (24-30 months of work per person), as well as future economic impacts at country level through improved roads (interview statements not verifiable).

Annex F: Survey for final beneficiaries

Bank of Georgia (EFSE)

Name of beneficiary/end-borrower	Ioseb Tsotsolashvili
Loan amount received	
Type of business activity:	
Reproduction/recycling of sand-rock (construction material)	
From you viewpoint, outline the main consequences and impact of the loan:	
Was the design of this loan conductive to poverty reduction?	Yes, indirectly. It increased production efficiency and made business more cost-effective. This supported business expansion, which led to the decision to hire more staff going forward.
Was the purpose of the loan fulfilled as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Yes. The loan amount was invested in the renovation of a special construction material recycling machine (the old engine was replaced with the new one). It saved from continuous past repair costs, which were cutting deeper into already low margins.
Who are the people benefiting the loan?	On one hand the business (the founder and three employees) benefitted from the effect of loan. At the same time, it supported the wider sector, enabling to satisfy increased demand for reproduced construction materials (sand, rock) on the market.
Are you using the outputs generated by this loan? (e.g. knowledge transmitted useful?)	Yes. Investment into refurbished machinery enabled larger production volumes and faster outputs.
What are the main benefits of this loan? Are there any environmental/social benefits/wider development results?	The main benefit is enhanced processing capacity and cost efficiency of the business. Additionally, the planned increased employment will add to direct social impact.
Have any (temporary and permanent) jobs been created?	Not yet, but the staff increase was decided, following the positive impact from a loan.
Are there any other contributing factors to the changes you observe?	n/a
Is there anything that can be improved?	
Do you have any other comments?	

Name of beneficiary/end-borrower	LLC Crystaldent; founder: Omar Bakhturidze
Loan amount received	USD 40,000
Type of business activity:	
Dental Office	
From you viewpoint, outline the main consequences and impact of the loan:	
Was the design of this loan conductive to poverty reduction?	Yes, indirectly. It enabled cost savings in the business and boosted growth potential, leading to the decision to hire additional staff.
Was the purpose of the loan fulfilled as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Yes. The loan amount was invested in purchase and renovation of 80 sq. m. commercial space for dental office. Prior to this, the premises were rented thus triggering high costs.
Who are the people benefiting the loan?	The business (founder and 2 employees) benefitted from the effect of loan. Additionally, it laid ground for serving wider group of patients with improved quality.
Are you using the outputs generated by this loan? (e.g. knowledge transmitted useful?)	Yes. The new dental office is both larger and much better located. This enabled the pick-up in business. The plan is to add two more dental chairs and hire two additional dental assistants.
What are the main benefits of this loan? Are there any environmental/social benefits/wider development results?	The main benefit is improved business conditions and increased net worth. Additionally, the planned increased employment will add to direct social impact.
Have any (temporary and permanent) jobs been created?	Not yet, but the staff increase was decided, following the positive impact from a loan.
Are there any other contributing factors to the changes you observe?	n/a
Is there anything that can be improved?	
Do you have any other comments?	

ProCredit clients (SME –FF)

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Sole proprietor Besik Topchishvili; I'm operating in agro sector, mostly: Growing of cereals (except rice), leguminous crops and oil seeds. Besides I have cow breeding farm, warehouses for crop save and dairy. For agro business I own plots and farms. Total employee per year in agro business is 50 persons. From childhood I was in this sector with my family. Average turnover from agro business I earn is around GEL70K per month.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	With loan I've bought 60 cows-working capital.
What are the characteristics of the loan requested? (amount? short term/long term?)	Loan amount is GEL100K for 5 years maturity.
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	Without any difficulties I've obtained needed amount of money with requested loan conditions.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	Taking loan in PCB helped me to increase dairy production with own milk, pushed me for further development. Only with those cows I'm earning GEL40K profit each year. As I'm using my milk for cheese production, quality is higher.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Yes in the farm I have employed permanent 6 persons; in dairy I have 10 permanent employees.
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	Increased quality of production, dairy is equipped with high standard machines lowing negative impact on environment. As well as increasing producing had a positive impact on the country's economy growth.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	Yes
Are you aware of the products proposed by other banks?	Yes
Is it your first loan with the bank? If not, how many times	No, I've applied 2 times before.

have your already applied for a loan?	
Have you already experienced difficulties in reimbursing your loan(s)?	No
Have you already contracted loans in other banks? If yes, why did you decide to apply to ProCredit for this loan?	Yes. I like the service rendered by PCBG.
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
I would like to expand your service zones in our region-Dedoplistskaro.	

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	The company is raising swine/pigs and is involved in a pork production business. The company is growing swine/pigs and owns slaughter house as well. The average monthly turnover is GEL100k and has 13 employees. The company is operating since 2012.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	Working capital. The company purchased swine/pigs for procreation.
What are the characteristics of the loan requested? (amount? short term/long term?)	Amount disbursed GEL 132 356 Maturity 5 years Disbursement date 11.02.2015
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	Yes The company obtained needed amount without special difficulties.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	With taking a loan in PCBG our turnover increased by 80%, profit margin is higher as well.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	LLC has permanent 5 employees in the farm that is only for caring mother pigs and growing pigs for selling; besides this we have 3 drivers and 5 employees in slaughter house.
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	Increased production had a positive impact on the country's economic growth. Local production is encouraged as well.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	Yes

Are you aware of the products proposed by other banks?	Yes
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	No, before the company has applied 3 times for a loan.
Have you already experienced difficulties in reimbursing your loan(s)?	No
Have you already contracted loans in other banks? If yes, why did you decide to apply to ProCredit for this loan?	No
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
Better to have simplified procedures with financial data and collateral apprising processes.	

Annex G: Pictures – EFSE end beneficiaries

A. Dental clinic

The loan amount was invested in the purchase and renovation of 80 sq. m. commercial space for dental office. (Picture provided by EFSE)

B. Recycling company

The loan amount was invested in the renovation of a special construction material recycling machine (the old engine was replaced with the new one). (Picture provided by EFSE)

Case study note – Kenya (with Uganda)

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The field visit was focused on Kenya – and most of this report deals with Kenya.

But one regional ITF project (a water and sanitation project involving Lake Victoria - WATSAN) is located in Uganda and managed from EUD Kampala; this project was also reviewed briefly and this report refers to WATSAN separately.

1 Introduction and context

KENYA

Kenya ranks as the country with the 2nd highest volume of ITF blending grants and has received 3 ITF grants totalling €50 million (excluding regional ITF grants). With a population of 44.86 million, this amounts to €1.15 of ITF grant per capita to date.

More broadly across all blending facilities Kenya ranks as the 11th country by amount of blending grants.

1.1 The Economy and blending

Kenya is an important country in the development of East Africa as it is a regional hub for trade and finance and the largest member of the East Africa Community (a five nation Regional Economic Community comprising Kenya, Uganda, Tanzania, Rwanda and Burundi).

It displays a number of features that make it a 'classic' blending country:

- **Middle income**: the GNI per capita[27], using the World Bank Atlas method, is $1290, which places it (just) in the lower middle income category (annual per capita GNI range of $1046-$4125). This implies that, in line with their policies, development partners will in the future to a lesser and lesser extent provide grant-only financing for Kenya, even with additional growth its economy is not yet sufficiently advanced to sustain loan-only finance in all cases.
- **Low risk of debt distress**: According to the World Bank[28], Kenya's economy grew by 5.4% in 2014 and is expected to have grown by 6% in 2015 and, thanks to the government's monetary and fiscal discipline, Kenya's debt remains sustainable. The IMF also classified it at low risk of debt distress. These elements fit with the requirements for a blending country, which requires adequate fiscal space to absorb the loan component of blending finance.
- **Sector priorities**: Foreign investments remain weak in Kenya, despite growing opportunities for investments in infrastructure and energy. Blending finance is an additional avenue to attract these needed external investments.

[27] According to the World Bank Atlas method (source : World DataBank, January 2016)

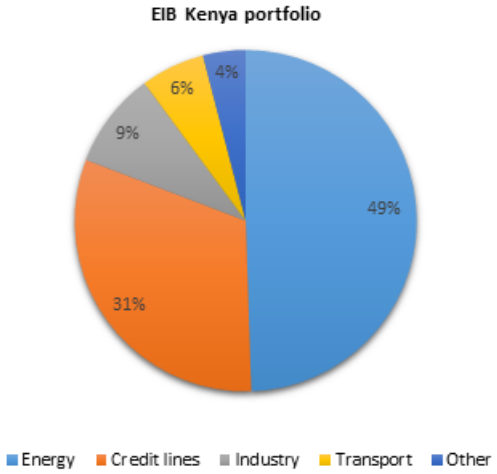
[28] http://www.worldbank.org/en/country/kenya/overview

1.2 Development cooperation

Kenya works actively with diverse development partners: global institutions (IFC, World Bank), European institutions (EU, EIB, AFD, DFID, KfW, DEG, FMO), Asian Institutions (JICA - Japan International Cooperation Agency) and African ones (AfDB), as well as others.

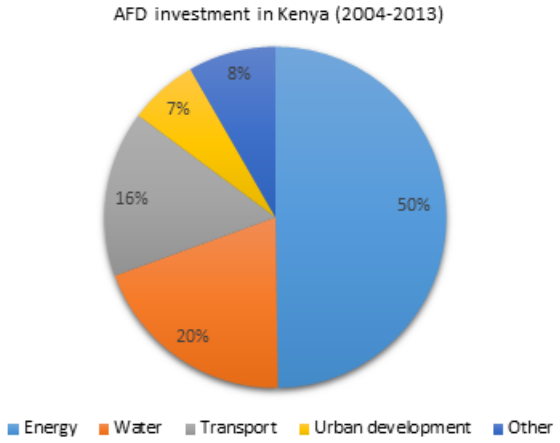
c) **Kenya's cooperation priorities with the EU focus on energy, transport infrastructure, agriculture and rural development, and governance.**
   - The EU 2008-2013 funding cycle supported these priorities through investment in infrastructure projects, political dialogue to enhance accountability of public institutions, and by building resilience to climate shocks and improving food security.
   - The EU-Africa Infrastructure Trust Fund (ITF), whose goal is "to promote investment in infrastructure in Sub-Saharan Africa through various forms of grants blended with long-term financing from development finance institutions"[29] has especially focused on water, energy, transport and infrastructure. Annex C presents the list of blending projects financed with ITF grants in Kenya.
   - The EU 2014-2020 funding cycle, which was granted €435 million, is putting emphasis on the following sectors: water, energy, transport infrastructures, food security/resilience to climate shocks, and governance. Much of this is eligible for ITF and blending.
   - The creation of the Africa Investment Facility (AfIF) mid-2015 will also impact the future volume and allocation of blending finance in Kenya.

d) **Kenya's development cooperation with other partners focuses mainly on energy, infrastructure (water, transport) and private sector development (PSD) – all prominent blending sectors.**
   - EIB's portfolio in Kenya is divided into energy (49%), credit lines (31%), industry (9%), transport (6%), the 4% left being divided between water/sewerage, services and telecom – see Annex D.



[29] https://ec.europa.eu/europeaid/regions/africa/eu-africa-infrastructure-trust-fund-eu-aitf_en

- Over the 2004-2013 period, the AFD invested over €1,125 million in Kenya, of which €559.7 million were dedicated to the energy sector, €220.9 million to the drinking water and sanitation sector, €176.7 million to the transport infrastructure sector, and €73.4 million to the urban development sector[30].



- KfW is active in agriculture and rural development (through irrigation projects as well as the building of transport routes and markets), health (notably through support to the Government to move towards universal health coverage), water sector (in particular in terms of infrastructure financing), education (rehabilitation and construction of schools, scholarship programs, etc.) and energy (promotion of the use of renewable energies, together with the private sector) in Kenya.[31]

1.3 Methodology and projects selected

Kenya is the only country of the East Africa region selected for field missions[32]. The ITF regional environmental credit line dedicated to banks and SMEs is being implemented there.

The country mission started with a review of the entire desk based information and finalisation of a list of relevant stakeholders. Almost without exception it was possible to meet all the stakeholders identified by EU delegation officials and by the evaluation team, including IFI local offices, national partner officials and partner financial institutions. A structured list of questions was supplemented by the list of hypotheses for each evaluation question and the list of missing information identified during the desk study.

The evaluation focused on 2 main projects that were completed or partly completed and formed part of the overall desk based sample:

1) The Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects (#43-44 ENER/Env.Credit lines/REG)

30 AFD, *ADF and Kenya : promoting sustainable development*, December 2013.

31 https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Subsahara-Africa/Kenya/

32 The EUD in Uganda was also met by the evaluation team in Kampala, regarding the WATSAN project which is not managed in Kenya.

2) The Kampala Water - LVWATSAN (#27-28 WASH/LVWATSAN/UG). Meetings were held in Kampala, Uganda for this project.

UGANDA

Uganda has $ 714 per capita GDP (World Bank, 2014) and is not a middle income country. It is also a DSF country and the IMF requires 25% concessionality on foreign borrowings within the debt sustainability framework.

The team visited the EUD for a discussion of the LV WATSAN project. This meeting was attended by EUD officials, and representatives from KfW and the project PIU (see Annex A).

2 Conclusions

2.1 Strategic relevance

j) **Kenya displays the characteristics of 'typical' blending profile and is not wealthy enough to sustain all-loan finance.** As Kenya is (just) categorized as middle income with a per capita GDP of $1,290 p.a., all-grant financing is likely to diminish as its per capita GDP grows yet the country is not wealthy enough to sustain all loan finance. In this transition to higher per capita GDP, blending could be seen as facilitating the transition from grant-funded projects to loan-funded projects.

k) **The two projects examined faced special challenges which 'blocked' progress until this was unblocked by blending:** the case of SUNREF needed various special support and grant-based inputs – especially technical expertise in a new area (REEE technologies), adapted risk management assessments in the banks, and 'blazing the trail' in new territory to actually make it happen e.g. drafting and agreeing the Special Power Purchase Agreement (SPPA) for a small generator of solar power to sell it back into the grid. In the case of WATSAN the special challenge was the scale – about 5 times larger than previous water projects (meaning that the investment was beyond what could be funded by either grant or loan alone, also bearing in mind the DSF concessionality requirement on loans of 25%), as well as the 'holistic' approach which required substantial TA.

l) **The leverage generated by blending is supporting external resource mobilisation efforts.** This is especially true of WATSAN, which at Euro 212 million total cost has a leverage of 15 and where the borrower and lender stated in interview that the project "could not have happened without the grant" as all loan financing was not possible without the 25% concessionality provided by the €14 million IRS grant.

2.2 Added value of blending

Based on field evidence in Kenya, we conclude that blending has, selectively, added value because:

m) **The right instrument was used.** The evidence of the two projects reviewed shows that TA was essential to both projects and that the Interest Rate Subsidy IRS was equally essential to lend to Uganda which requires 25% concessionality under the DSF rules.

n) **Policy dialogue was reinforced by the blending grant in both projects.** The policy debate was reinforced by these projects at several levels. For example the policy to pursue REEE via small-scale initiatives was supported by the SUNREF project, as was banks' improving their risk management assessments for renewable energy and energy efficiency lending (a new area for them). In addition, the program contributed towards the adoption of a Standard Power Purchase Agreement (SPPA)

by supporting project borrowers in their correspondence and dialogue with the Ministry of Energy. That helped to make the contractual process between small power producers and the national power utility standardised and affordable. For WATSAN, the TA grant funded a diagnostic review and feasibility study which supported the implementation of a holistic approach to water management i.e. managing the entire supply chain from water catchment management to environmental concerns to distribution in 21 urban areas of Kampala to sanitation and waste water management.

o) **Blending has contributed to greater access to finance.** In the case of the SUNREF project firms and other entities that otherwise would not have borrowed for investments in REEE were now able to do so because of the blending grant which provided the know-how to the borrower and the lender. All borrowers visited confirmed in interviews that this was the case. In addition to the essential know-how funded by the EU grant, there was a subsidy to the lending rate (about 50% below market rate) which was provided by an AFD grant – and the French ARIZ guaranteed some of the sub-loans. We note this market distortion in annex D; and this subsidy needs to be temporary for sustainability reasons.

p) **The visibility of the EU was low at end beneficiaries' level.** Although the EU was present at official functions, visibility in the case of SUNREF was practically zero at end beneficiaries' level**.** All interviewees viewed this as a French (AFD) and KAM (Kenya Association of Manufacturers) project. However, recently the EU logo has been placed on consultant reports to substitute for the lesser known ITF logo – which could improve visibility in the future. In the case of WATSAN however, no conclusive evidence could be gathered on EU visibility beyond project implementation team, as there was no visit to the project sites.

2.3 Results

q) **There are results and outcomes of the projects using blending – where there is evidence that the blending grant has been instrumental.** This can be summarised as:

- SUNREF boosted the pioneering application of REEE and a solar plant, energy saving equipment, more efficient boiler and other REEE investments are on-stream. In several cases borrowers under the line of credit spoke about 'how the dialogue of the advisory process (TA) had 'opened their eyes' to different ways of seeing energy efficiency by upgrading to different equipment even before installing renewable energy sources for example solar panels.
- Banks have learnt to assess REEE risk and are mainstreaming this lending in their strategies. In interviews they admitted this area was new for them, and that they 'did not know how to assess REEE lending' which has now been learnt.
- At WATSAN the blending grants produced two results; first that the IRS enabled a scaling up to about 4-5 times previous water project sizes by borrowing (rather than relying on all-grant funding which by definition

implied smaller amounts and smaller projects). Second, the comprehensive TA and its two in-depth studies (diagnostic and feasibility) introduced a full 'supply chain' approach to water provision to households in Kampala; starting with investments in catching the rain water and catchment area management (forestry and erosion management and other matters), water treatment and quality control (also in Lake Victoria where there are effluent issues), distribution to 21 urban zones within greater Kampala (including poor low income areas) and waste water management and sanitation aspects. This is a more comprehensive approach (also called 'holistic') than simply renewing the water distribution pipes (which still date from pre-independence and are more than 50 years old).

3 Findings across the evaluation questions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
SUNREF: Blending – as a financing modality – is relevant for macro reasons and for the projects selected. Based on macro statistics and other JC variables, this can be expected to continue and grow. The SUNREF project has already gone into Phase 2 – at twice the size of phase 1 – and there are loose references to a phase 3. As often mentioned during interviews, the success of the project comes from its free TA component. (JC 1.3; interviews with IFI and financial intermediary). WATSAN: "The project would not have happened without the EU grant" – interview quote - as there were SDF macro constraints on external debt, as well as significant technical issues. There are thoughts of a further phase 2 project which would again require an EU grant. (JC 1.1 & 1.3; interviews with IFI and the project implementation unit PIU).

Desk hypothesis	Evidence
That projects posing specific challenges requiring blending will continue to grow	Renewable energy and energy efficiency projects are at an early stage and not yet financially self-sustaining. As renewable energy is a top policy priority of the Kenyan Government, the strategic relevance for blending aligns with this.

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
SUNREF: ▪ The resort to the Facility was justified by the regional dimension and the sector of the project, which is strategic for the region and for the Facility. (JC 2.1; interviews with IFI) ▪ Overall, the portfolio of blending projects aligns well with the sector policies of Kenya – see annexes C for the blending project portfolio, E for the financial sector policy and F for the energy sector policy. It has a positive contribution to two sector policies (energy and climate aspects) and financial sector (especially for risk management). (JC 2.3; interviews with EUD and IFI) WATSAN: The project aligns directly with Government policy pledges to provide quality potable water to all of Kampala including peri-urban areas where the poorer segments of the urban population live. In addition, the project aligns with the full supply-chain approach to water provision – starting with and including management of catchment areas through to the sanitation and treatment of waste water. In addition the project is intended to be the first of more such projects for the other urban centres along the shores of Lake Victoria within Uganda as well as the other three countries fronting the Lake (Kenya, Tanzania and Rwanda) which makes this project a forerunner to a more regional multi-country approach (JC 2.3; interviews with EUD, IFI and PIU).

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	The two projects were aligned with their respective sector policies: a) energy policy and Kenya's policy for increasing the share of renewables, b) financial sector policy c) environmental conservation policy c) water management policy and d) including poverty alleviation for WATSAN.
That the training has been sufficient	Bank training has improved risk management in energy lending but of the 11 people trained only 2 remain in that bank (the Cooperative Bank). However, that knowledge is still in the banking sector, and could be useful again as the next phase of the SUNREF project (also supported by an EU grant of €2.1 million for the same TA services) will use up to 5 financial intermediaries. However, there is some evidence that more training is needed in the area of project preparation e.g. at the KTDA Gura HEP plant more skills were needed for financial analysis and project development.
That IFIs and EUDs are clear on the criteria	For SUNREF, the project was perceived as clearly aligned with the Facility eligibility criteria in terms of geography and sector.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)
SUNREF: There were feasibility calculations that underpinned the TA amount of €2 million for the TA in phase 1 of SUNREF and €2.1 million in phase 2 of SUNREF. This achieved technical support for sub-borrowers as well as risk management improvements within banks. (JC 3.2 -3.3; interviews with IFI) WATSAN: The €14 million interest subsidy was calculated against the AFD loan of €75 million and the DSF (IMF) requirement of 25% concessionality under the life of that loan. The €8 million TA was calculated based notably on the expected cost of two major studies which assured the quality and comprehensive 'supply chain' approach to water provision and sanitation – a feasibility study and a diagnostic review[33]. (JC 3.3 and 3.6; interview with IFI and PIU).

Desk hypothesis	Evidence
Assembling the financial package is pragmatic as well as quant driven	No, it was quantitative. For SUNREF, AFD has conducted a study ("étude de cadrage"), to identify the potential of the market, and to determine the appropriate instruments to be used (TA, financing, etc.) to overcome the identified market barriers.
Target leverage levels should be implicit in grant request	No evidence that there were leverage targets (except in so far as achieving a 25% concessionality on a loan of €75 million sets an implied leverage - WATSAN).

[33] The TA was calculated on the expected costs of more than two studies, and also included the preparatory works, such as detailed designs. (KfW, June 2016)

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
SUNREF: The TA instrument was essential for the SUNREF project as it brought the required technical (and financial) expertise to both financial intermediaries and SMEs, for a new complex area (REEE) which was not well known – especially not for small scale projects. However, perhaps a guarantee instrument could have been added to the package so that new clients that had not previously worked with the financial intermediary could have strengthened their loan application (2 out of 8 sub-projects under Phase I required French-provided guarantees in order to receive Co-operative Bank's approval) (JC 4.1; interviews with IFI, financial intermediaries, end beneficiaries). WATSAN: The IRS element was a DSF macro requirement and essential for permitting the external borrowing €150 million (divided equally between EIB and AFD) out of €212 million total. Similarly the TA was critical for laying the technical foundations to the scale of this project (previous water projects were about €40-50 million) as well as the comprehensive approach going far beyond water pipe renewal to prevent up to 80% water loss (see previous references to the full cycle of water management, provision and waste treatment). No other grant instrument was needed (JC 4.1 & 4.2; interviews with PIU and IFI).

Desk hypothesis	Evidence
TA was partner owned and demand led	Strong evidence in both cases. For SUNREF the Kenya Association of Manufacturers houses the TA team and works with it as an integral part of the association. From beneficiaries (SMEs)' perspectives, the TA provided by KAM was justified and welcome. For the KTDA/Gura mini-hydro power plant for instance (cf. pictures in annexes), the beneficiaries mentioned the lack of in-house technical expertise at the early stage of the project, including in terms of implementing the structure (communication, safety issues, human resources management, etc.). For WATSAN the TA studies set the work plan of the WATSAN team at the project implementation unit.
Partner informed and took part in choice of instrument	Indirect evidence – in both cases TA was built in from the start of project discussions. Regarding SUNREF, the need for TA was identified during the study conducted at the design of the projects. Discussions were conducted with the different stakeholders.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)
SUNREF: Alignment with policy is good and the blending TA supported 'filling in and realizing high level policy'. In the energy sector, for example, the high level policy stated that surplus energy can be sold back into the grid, and the blending TA worked on the small-scale SPPA – Standardized power purchasing agreement – that makes this contractually possible. There was no evidence that this project actually shaped high-level policy, but there is strong evidence that the project contributed to sensitization of RE and EE thinking and awareness at all levels in Kenya – especially the young e.g. the student community at Strathmore University. In the financial sector, the grant supported a shift within the banks' risk assessment techniques and lending policy, to include what was previously excluded. Partner bank mentioned that their "green strategy" (being present in the renewable energy sector) wouldn't be possible without the TA (and subsidised loans) of SUNREF. (JC 5.3; interviews with IFI, financial intermediaries and end beneficiaries). WATSAN: There is direct evidence that the project aligned with policy (expanding potable water supply with the comprehensive approach to water quality management, catchment area

management in line with environmental objectives referred to earlier.). There is also evidence that the project helped shape policy in the following ways: a) by lengthening the time horizon to 2025 and 2040 – especially important given the high rate of urbanization and migration from rural to urban areas; b) by taking environmental issues on board - catchment area management and Lake Victoria water quality monitoring. and c) by addressing the needs of poor urban areas (up to 21 zones in Kampala). In addition this model is intended for replication in other cities by the lakeshore of lake Victoria. (JC 5.2 & 5.3; interview PIU).

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	These projects fit fully in the EU policy priorities for Kenya, Uganda and the region (see section 1).
Blending and BS together are a more powerful factor of change than either alone	No direct evidence, but interviews support that as the EU is seen to walk the talk – not just talk the talk.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

SUNREF:

The TA contributes to bring the projects to a high level of quality for them to qualify for the loan component of SUNREF, based on several eligibility criteria developed by the IFI and its implementing partner. Environmental impacts are taken into consideration. Regarding the choice of the financial intermediaries, the robustness of the procedures considered for loan applications, and the attitude towards social and environmental impacts of the projects funded are among the criteria taken into consideration by the IFI. (JC 6.1; interviews with IFI).

Eligibility criteria include international standards from the international organisation for standardisation and the international electro-technical commission (JC 6.2; interviews with IFI, project document).

The IFI monitors closely the implementation of SUNREF, essentially from the identification to the financing of sub-projects. The disbursement rate of the credit line provided to the financial intermediary is for instance monitored, to ensure that the credit line is used correctly. At the implementation level of sub-projects, the monitoring was perceived to be inadequate from the financial intermediary perspective, but fine from project sponsors perspective (JC 6.3; interviews with financial intermediary and end beneficiaries).

The grant was at the foundation of project quality by providing the technical know-how for the RE and EE components of small projects which is key in discounting perceived risks by financing institutions. For RE this included conducting technical feasibility studies for different forms of RE (solar, wind, hydro, biomass etc.) and moreover advising on the most optimal specifications for the PV panels, boilers, etc. Also the EE component "opened the eyes" of several sub-borrowers by identifying new equipment that could produce more for up to 50% less energy consumption, as well as advising on boilers that produced greater output for less fuel (and more versatile fuels including biomass briquettes). When needed, support was also provided on the financial side of the project (preparation of documents, negotiation with the bank, etc.). In addition the grant has helped broaden and deepen risk assessment skills in the banking system for long-term loans for RE and EE – where there was no previous experience. (JC 6.5; interviews with IFI, financial intermediary, and end beneficiaries).

WATSAN: The TA was a critical element in defining project quality by a) providing a diagnostic study of the current situation – and its problems e.g. that the water distribution system had received almost no investment since the 1960s and b) the design and feasibility of the expanded and

rehabilitated water and sanitation system. In addition the Water Authority has established a dedicated PIU in charge of implementation. (JC 6.1 & 6.2; interviews PIU).

Desk hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages of the project cycle.	The TA shaped both projects fundamentally. There is no evidence on the counter-factual whether it would have been better with another instrument – but given that know-how was needed, this seems unlikely. Regarding partner banks for instance, it was clearly mentioned that the TA was determinant in their choice to operate on the small-scale EE-RE segment.
In comparison to what other modalities (and why) does blending (not) deliver: ▪ greater sustainability ▪ greater affordability (to beneficiaries) ▪ better viability/rates of return (to IFIs) ▪ better impacts (on poverty alleviation) ▪ more focus on the needs of vulnerable groups	Again, there is no evidence on the counter-factual whether it would have been better with another instrument. In the current design of the project, the sustainability of SUNREF is not ensured. The TA is indeed provided at no cost for the beneficiaries (banks and SMEs). The poverty impact is indirect, through the improvement of access to electricity. Small enterprises benefit from the program through development of associated markets for instance saw dust from carpentry workshops that is bought by briquetting factories and market-vulnerable small holder tea farmers getting improved earnings from their farms due to access to relatively cheap and reliable power in their tea factories.
EUDs are (not) directly involved in all stages of the blending cycle	Regarding SUNREF, the EU has been involved when the project was already mature (almost finalised).
IFIs have (in)adequate resources for effective policy dialogue	KAM, the SUNREF partner in charge of TA, is recognised as having strong capacities in terms of communication and lobbying at government level.
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments)	Partly confirmed regarding SUNREF. The IFI monitors closely the implementation of the project, but essentially from the identification to the financing. The disbursement rate of the credit line provided to the financial intermediary is also monitored. However, it was mentioned that the IFI could do more in terms of monitoring the projects that have been funded through SUNREF (technical aspects). Projects sponsors (SMEs) were satisfied with the level of support received from KAM during the implementation of their projects.
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Not confirmed for SUNREF. EU standards are the same as of the IFI. EU policies in terms of EE-RE are align with those of the IFI.
That potential beneficiaries (i.e. partner governments and institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	It was mentioned that the Government does not know exactly about blending. At EUD level, there was a good understanding of the blending mechanism and its potential benefits and added-value compared to other financing modalities.
IFIs have (not) demonstrated application of	Confirmed for SUNREF. The IFI has been able to identify problems emerging with the partner bank, thanks to its close

mitigation/remedial measures to problems that emerge during project implementation	follow-up of the project implementation. It has been active in discussing with the partner bank when problems emerged (in terms of costs charged to end beneficiaries). The IFI has also requested for the extension of the project and additional TA funding (Phase II), due to delays related to the country context, observed in the phase I (regulatory and banking contexts).

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)
SUNREF: There is evidence that the EU grant was directly instrumental in improving access to finance: ▪ By improving risk assessment skills of the financial intermediaries for EE and RE loans, through trainings provided to the staff (JC 7.1; interviews with IFI and financial intermediaries). About half of the sub-borrowers had not previously been a client of Cooperative Bank – so the SUNREF loan formed part of the diversification of banks for borrowers. ▪ By providing the obligatory technical report that formed part of the loan application, and by providing support in making the project bankable. However, several managers already had a high level of financial literacy and were already familiar with the banking system. (JC 7.2; interviews with IFI, financial intermediary and end beneficiaries). WATSAN: not relevant.

Desk hypothesis	Evidence
FIs have improved their capacities in terms of assessing MSMEs' risk	Confirmed. Thanks to the TA, partner banks now have improved their risk assessment skills for RE and EE loans. During phase I, 11 staff has been trained in one of the partner bank. However, as mentioned under EQ2, only 2 of the 11 trained staff remain in the bank.
FIs have developed a strategy or revised their existing strategies towards the MSME segment (new products, specific trainings, new branches, etc.)	Confirmed. Partner banks have revised their strategy towards EE-RE small scale projects, and trainings are organized in this regard. One of them for instance has received a "Best green bank" award in 2014. The strategy toward the small scale EE-RE segment would not have been implemented without the TA, nor without subsidised the credit line.
TA have contributed to improve financial literacy levels among MSMEs' managers	Partly confirmed. Managers have received support in making their projects bankable, and this was perceived as valuable. However, several managers already had a high level of financial literacy and were already familiar with the banking system. The choice of the bank was imposed by the project (only the banks involved in the partnership). As the number of banks involved has now increased from phase I (Cooperative bank) to phase II (5 banks: Commercial Bank of Africa, Chase Bank, Cooperative Bank, Diamond Trust Bank and

	Standard Charter), several managers have decided to not work anymore with Cooperative Bank. They were for instance upset with the fact that the Bank charged them additional costs related to the guarantee mechanism for instance (ARIZ), whereas it was at no cost for the bank.
Take up rates of guarantees and collateral-substitutes products have decreased	The AFD guarantee mechanism ARIZ had to be used for 2 of the 8 projects funded under the Phase I. No reimbursement problem has been reported.
Advantages to use one instrument or another in terms of improving FIs capacity to deal with MSMEs	TA was essential to improve banks capacity to deal with EE-RE small scale projects.
Advantages to use one instrument or another in terms of improving MSMEs capacity to deal with FIs	TA was certainly needed and relevant. However, for MSMEs where the technical capacity is already there, and the familiarity with banks as well, another instrument, such as a guarantee mechanism, could be more advantageous (compared to TA).

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
SUNREF: ▪ SUNREF is a global multi-country project financed by AFD and there is no evidence that the grant had any impact on the time for preparation. EU has been involved when the project was already mature. In terms of information sharing, there is a reporting obligation for the IFI to the EU (the report is send to IFI HQ, not directly to the EUD), which may be considered as having an impact on the management cost of blending project (JC 8.1-8.2; interviews with IFI). ▪ As for visibility, interviews of beneficiaries suggested that this is perceived as a French AFD and Kenya Association of Manufacturers KAM project and there was little perception that the EU was involved. There is little evidence that this perception is different between banks and sub-borrowers – both groups thought that the programme was AFD/KAM. However, within the past year the EU flag/logo has been placed on the technical report covers prepared by the consultants – substituting for the lesser known ITF logo (see annex H for an example). (JC 8.3; interviews with IFI; financial intermediary; end beneficiaries). WATSAN: Previous projects undertaken by the Water Authority with official finance were much smaller – around $40-50million, and preparation for a project about 5 times that size with substantial and ambitious holistic objectives was more complex. So preparation time was longer but this is not due to the EU grant. Visibility has a contract clause and there are numerous instances where the EU flag/logo and EU presence has been prominent – at launch events, social/PR events and with an annual double spread in the local newspapers. (JC 8.1 & 8.3).

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	No evidence. The EU was involved only once the project was almost finalised.
Management costs were inferior to pure loans	No evidence – the opposite is likely to be true. There is an obligation of reporting. There are also exchanges (more at high level than at country level) between EU and AFD.

Dissemination of knowledge has led to visibility	Partly – see above. Both projects are seen more as an IFI project at end beneficiaries level – in the case of SUNREF the AFD and the case of WATSAN the KfW. Regarding SUNREF, the visibility of the EU stops at the level of the implementing partner (KAM), who is aware of the grant component of SUNREF.

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

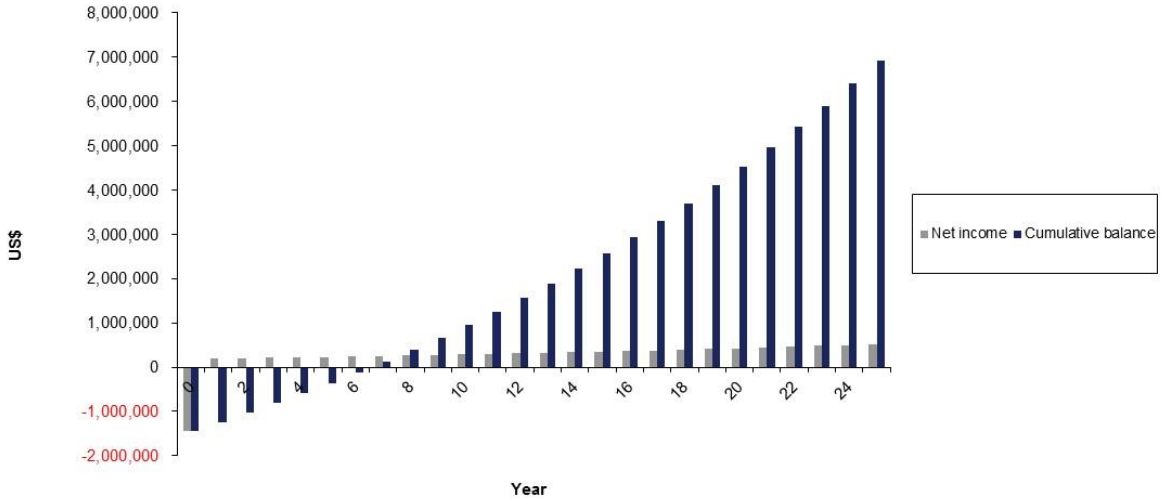
SUNREF:

There is evidence that the technical preparation was high quality and adopted fully by the sub-borrowers. Praise was voiced about its added value – not only for the recommendations but for the technical dialogue process and broadening of horizons. Regarding the KTDA/Gura sub-project for instance, the hydro power plant is expected to significantly reduce the cost of electricity for tea producers (owner of the power plant), and therefore increase their competitiveness on the market. It was clearly stated that without the support received through SUNREF, the project could have been a mess, due to the lack of internal capacities in KTDA in particular and in Kenya in general regarding this type of hydro energy. Other sub-projects such as Alpha Knits and Lean Energy solutions also aim at fostering the growth of the SMEs, through energy savings and reduction of operational costs thanks to new technologies. (JC 9.7; interviews with end beneficiaries).

The overall project (Phase I) also had to cope with delays due to the countries context in terms of policies (PPA in Kenya for instance) and banks limited willingness to enter the small scale EE-RE market segment. All the planned amount for TA was however used during Phase I, but activities were implemented almost exclusively in Kenya, whereas Uganda and Tanzania were also part of the project. At sub-projects levels, a 2 year delay has been observed for the KTDA/Gura hydro power plant, mainly due to delays in negotiations with land owners. While the developer is now confident of finalizing construction by March 2016, it appears a further 6-9 months' delay may result since land acquisition is still not completely finalized and a fairly significant portion of civil and electro-mechanical works remain outstanding. (JC 9.8; interviews with IFI and end beneficiaries).

The following results were noted: a) switch to RE and energy savings (EE) among the beneficiaries targeted at design stage, b) net savings in energy bills for SMEs, c) changes in mind-sets and perception, with greater awareness of the energy issue, d) dissemination and publicity of results e.g. at a meeting of 40 university vice-chancellors, e) and 'first' signings of PPAs with Kenya Power to sell surplus solar energy into the grid. At bank level there are f) shifts in strategy and lending policy to embrace new innovative cash-flow based lending; and g) new risk analysis skills that enable banks to assess this type of loan. The sub-loans also safeguard and boost employment which could be considered a pro-poor effect. (JC 9.9-9.10; interviews with IFI and end beneficiaries).

To illustrate, the net saving in energy bills for one of the sub-projects at Strathmore University is quantified in the graph below which indicates a cumulative of close to USD 7 million after a 25 year period.



WATSAN: This project is driven by the two large foundation studies – diagnostic and feasibility – and its results follow those documents. Project outcomes include: a) rehabilitating and expanding the water distribution system b) including around 21 poor urban 'pockets' of varying sizes[34] c) improving sanitation standards so the environment benefits d) managing water catchment areas, e) monitoring and safeguarding water quality in lake Victoria and f) replicating the project approach to other towns on the shores of the lake (JC 9.1, 9.3 & 9.4).

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies.	No evidence that the design work was lacking or needed 'a more thorough reflection'.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient.	The delays experienced during the phase I, due to the country context (it took time to have the PPA operational, to convince the banks to enter the project, etc.) were not sufficiently anticipated. This has led to the request of an extension of the project (Phase II). At sub-projects level, the KTDA/Gura hydro power plant experienced a delay of 2 years with a further 6-9 months' delay expected, - mainly because land acquisition, which is still on-going, took longer than expected (over two dozen farmers are affected by the project, and KTDA has to negotiate with each of them).

[34] Uganda has been struggling for decades with issues of poverty and Kampala, its capital city, is no exception. The migration of residents from rural to urban areas has led to ***growing pockets of poverty in the capital*** since insufficient housing sends many to live on the streets. The poor of Kampala live in slums and nearly all citizens are unemployed. Most attain money by begging in the streets. With a population of 1,189,142 people in the city, ***access to clean and safe water is limited to 65 percent. The remaining 35 percent risk contamination and disease by getting water from highly contaminated sources***. The Borgen Project ; http://borgenproject.org/poverty-kampala-uganda/ The WATSAN project is beginning to address this issue, but will need several phases to fully address the growing problem.

The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects.	No, WATSAN includes peri-urban areas where the poor live. The pro-poor benefits of SUNREF are more indirect: by reducing operating costs it improves sustainability of employment (in the case of KTDA tea factories, Alpha-Knit factory, and other factories that are now using the bio-mass briquettes provided by Lean Energy); by generating sustainable employment (at Strathmore University for instance, the MSE owned by a former student is in charge of cleaning the solar installation) and temporary jobs (at KTDA/Gura hydro power plant, just about 300 people were employed at the peak of the construction period and currently 150 are still working at the site. At least 8 permanent employment opportunities will be created on commissioning of the project). It should be mentioned that in some cases, the projects funded under SUNREF have caused damages to the population. In the case of the KTDA/Gura hydro power plant, it was reported that compensations for the damages caused to the properties of land owners had to be paid. Due to this projects, some farmers also had to cede parts of their land.
Monitoring of results was uneven across projects and IFIs and often insufficient	No evidence.

Annexes

Annex A: Persons Met

Name	Title	Contacts
EU Delegation to Kenya		
Dorian Kivumbi	Head of Infrastructure Section	dorian.kivumbi@eeas.europa.eu
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Remy	PSD	
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Annex B: Documents Consulted

- The Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Project
  - Agreement
  - Project fiche
  - Progress reports
  - Aide-mémoire
  - List of Eligible Measures & Equipment, Suppliers & Installers (LEMESI)

Additional documents collected during the field mission:

- AFD, "Projets financés au Kenya via LC Coop Bank", January 2016
- The Kampala Water - LVWATSAN
- Agreement
- Project fiche
- Progress reports

Annex C: Table of EU ITF Blending projects in Kenya (based on the Evaluation inventory file)

National and regional projects	Leading institution	Start date	End date	Amount ITF	Amount loan
Lake Turkana Wind Power	EIB	N/A	N/A	25,000,000	595,000,000
Regional Mombasa Port Road Access Project	KfW	N/A	N/A	20,000,000	230,100,000
Kisumu Water - LVWATSAN	AFD	N/A	N/A	5,000,000	50,000,000
Ethiopia-Kenya Interconnector (EAPP)	KfW	N/A	N/A	337,414.51	659,662,585.49
Lake Victoria Regional Transport Project	PIDG	N/A	N/A	600,000.00	118,895,000.00
Kibuye-Goma-Birembo Interconnector	KfW	N/A	N/A	761,258.00	63,838,742.00
EASSy – East African Submarine Cable System	EIB	N/A	N/A	2,600,000.00	197,354,000.00
Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects – Phase I.	AFD	2010	N/A	2,000,000.00	75,900,000.00
Environmental Credit Lines for Kenya, Uganda and Tanzania - Engaging Banks in Energy Transition Projects – Phase II.	AFD	2013	N/A	2,100,000.00	NA
Kampala Water - LVWATSAN	KfW	2010	N/A	14,000,000.00	190,000,000.00
Kampala Water - LVWATSAN	KfW	2010	N/A	8,000,000.00	190,000,000.00
Africa Sustainable Energy Facility (ASEF)	EIB	N/A	N/A	3,000,000.00	42,000,000.00

National and regional projects	Leading institution	Start date	End date	Amount ITF	Amount loan
Jomo Kenyatta International Airport Extension	EIB	N/A	N/A	5,000,000.00	179,270,000.00
Maputo International Airport	AFD	N/A	N/A	1,600,000.00	54,400,000.00
Tanzania Backbone Interconnector	EIB	N/A	N/A	13,700,000.00	360,935,000.00
Renewable Energy Performance Platform (REPP)	EIB	N/A	N/A	15,000,000.00	182,000,000.00
Geothermal Risk Mitigation Facility for Eastern Africa (GRMF)	KfW	N/A	N/A	30,000,000.00	320,000,000.00
Eastern Africa Transport Corridor	EIB	N/A	N/A	16,600,000.00	112,400,000.00
Clean Cooking Program for Africa (GLPGP)	KfW	N/A	N/A	1,700,000.00	

SUNREF- Phase II (2013 – 2015)

EU contribution under ITF : 2,1 M EUR for TA.

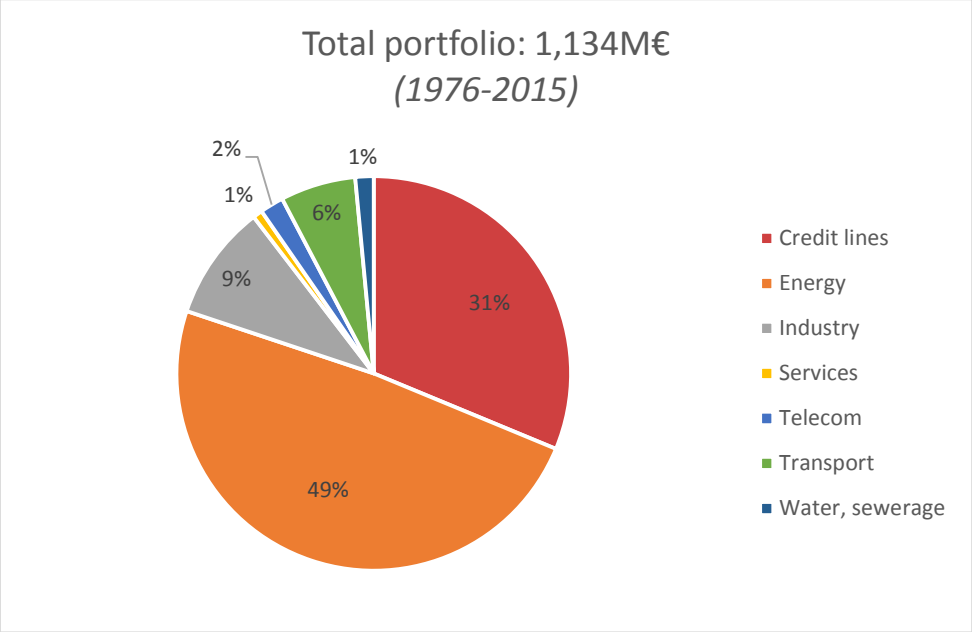
The design of the phase II is the same as of the first phase. However, the TA under phase II will be mainly dedicated to support the activities in Uganda and Tanzania and to some extent in Kenya. Indeed, all the projects funded during phase I were implemented in Kenya.

According to project documents, there are two main reasons for the phase II:

1) the project took more time than excepted to be implemented: instead of two years period of time, the project should have initially been requested for 4 years, notably because of the long starting of activities to fully define and operationalize the RTAP, and the financial barriers more difficult than anticipated, especially in Tanzania and Uganda (e.g. perception by the banks that the projects are risky in term of financing structure and lack of guarantees, and hence are taking more time to take decision before granting the loans;

2) More activities than expected were funded: the existence of the RTAP created a lot of expectations and more than forecast promoters rushed to take benefit from the technical and financial assistance. Therefore the size of the technical and financial assistance was not designed at the level of the actual needs.

Annex D: Data on EIB sector allocations



Source: ADE, based on www.eib.org ("Finance contracts signed - Kenya"), 20 January 2016.

Annex E: THE BANKING SECTOR IN KENYA

Main characteristics

- **Kenya's financial system is relatively well developed**. The formal financial sector consists of a large banking sector, a relatively well-developed securities market, a large number of insurance and retirement benefits schemes, microfinance banks (MFBs), and deposit taking savings and credit cooperatives (DTSs). As shown in Table 1, the credit providers regulated by the Central Bank include 44 commercial banks (43 commercial banks and 1 mortgage finance company), and 12 licensed MFBs which target mostly informal microenterprises and lower income consumers. The DTSs are regulated by the SACCO Societies Regulatory Authority (SASRA). The matrix in the Annex provides a full list of the Kenyan commercial banks, as of January 2013.

Table 1: Prudentially regulated financial institutions in Kenya

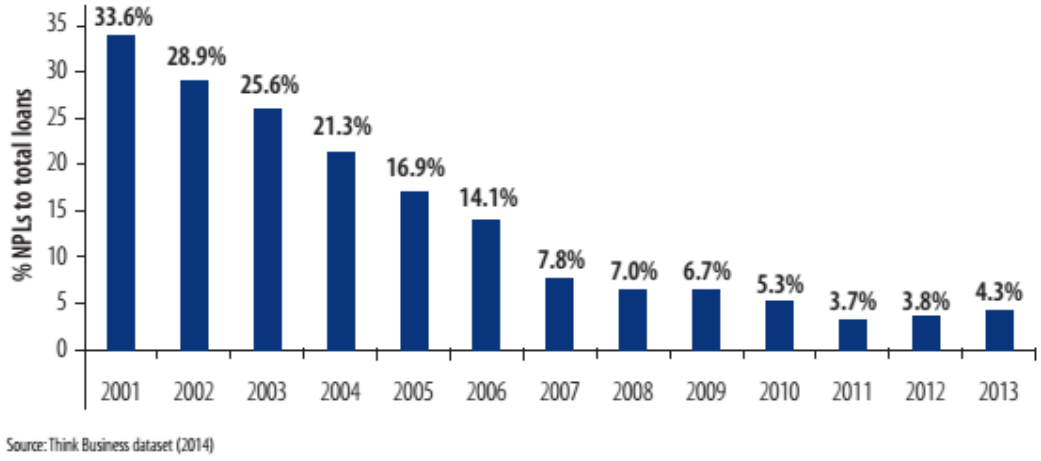
Type of institution	Regulatory Authority	Number of institutions	Total assets (KSh billions)	Loans/ advances (KSh billions)	Non-Performing Loans (%)	Lending to SMEs (KSh billions)
Commercial banks*	CBK	44	3199	1531	5.2%	345
MFBs	CBK	12	57	27	9.2%	NA
DTSs	SASRA	184	242	185	4.7%	NA

Sources: CBK (2015), SASRA (2014), own data. * This includes 43 commercial banks and one mortgage finance institution.

Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

- **The performance of the banking sector in the past years has been overall sound despite the global crisis**. The overall share of non-performing loans to total loans decreased significantly in the last decade, from 33.6 per cent in 2001 to 4.3 per cent in 2013 (Table 2). This is partly due:
  - to proactive supervision by the Central Bank, which heightened its supervisory activities to detect any immediate stress present in the system;
  - to the fact that most banks introduced stricter appraisal for new credit facilities and tighter monitoring of credit portfolio, while some also scaled back their foreign currency loans and revised their relationships with foreign banks, in order to reduce vulnerability to exchange rate shocks.

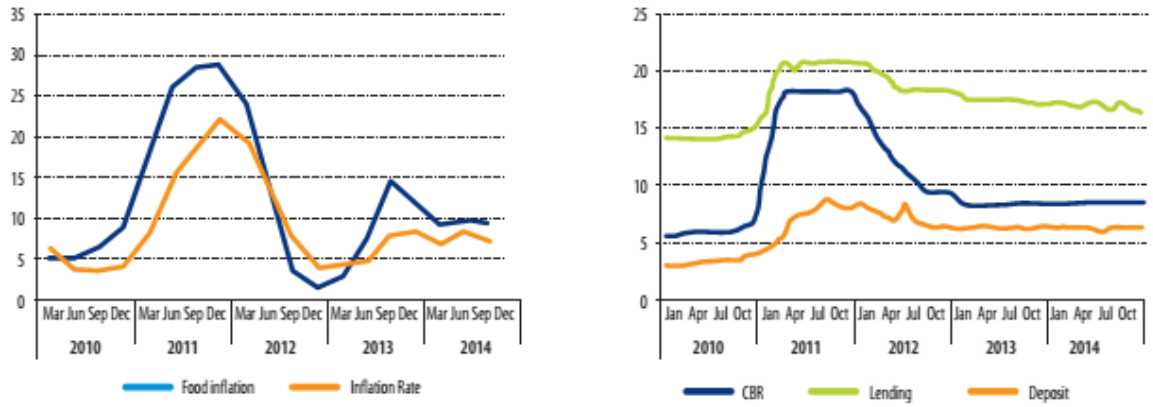
Table 2: Non-performing loans as a share of total loans between 2001 and 2013



Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

- **Despite the macroeconomic volatility, most banks made record profits in 2012 and 2013**. This is partly because of the high interest rate spread in the second half of 2012 and 2013 (Table 3).

Table 3: Inflation rates (Fig. A) and interest rates (Fig. B) between 2010–11 and 2014



Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

- **Finally, it is worth mentioning that Kenya is a world leader in mobile banking**. Its landmark M-Pesa platform, a service offered through a partnership between Safaricom and Vodafone, allows a range of money transfer, cash-flow management and banking options through mobile phones.

Issues at stake

- The SME segment[35], targeted by SUNREF, is seen by most banks as particularly risky, both because dealing with SMEs implies high operating costs and because banks often lack proper risk appraisal and management processes for this client segment. A recent survey conducted among Kenyan commercial banks[36] highlighted that the following factors as significant obstacles to SME financing:
  - **Macroeconomic factors** such as inflation and foreign exchange risk;
  - **SME-specific factors,** which include three main issues: the poor quality of financial records, inadequate (or complete lack of) collateral, and informality. Some banks also mentioned that SMEs tend to suffer from poor managerial practices and an inability to manage risk;
  - **Bank specific factors,** such as lack of credit risk assessment capacity, low risk appetite, and difficulty in designing new products.
- As a result, it appeared that:
  - **Smaller businesses tend to be charged higher interest rates on loans compared to larger firms**. There are differences, however, depending on bank size and ownership. Mid-sized banks appear to offer the lowest interest rates to micro, small and medium enterprises, whereas small banks appear to offer lower interest rates to what they define as large firms.[37]

35 The definition of what is considered a micro, small, medium or large enterprise differs widely across banks. According to the Government of Kenya, firms are defined as 'micro' when they have between 1 and 10 employees and a turnover not exceeding KSh500,000. They are considered 'small' when they have between 11 and 50 employees and a turnover not exceeding KSh5 million. However, banks' definitions differs both in terms of the information that is being collected and the categorisation of enterprises. (FinAccess Business – supply Bank Financing of SMES in Kenya , September 2015)

36 The data was collected in two survey rounds in a joint project by Financial Sector Deepening Kenya (FSD-K), the World Bank (WB) and the Central Bank of Kenya (CBK). The first survey round was conducted in 2012 and the second in 2014. The response rate was 33 commercial banks for the first survey round and 25 banks for the second. The data captures a minimum of 80 per cent to a maximum of 94 % of the credit market in the different survey rounds. (FinAccess Business – supply Bank Financing of SMES in Kenya , September 2015)

37 The data should be interpreted with the caveat that interest rates are affected by the types of loans that the various categories of businesses are able to access. (FinAccess Business – supply Bank Financing of SMES in Kenya, September 2015)

Table 4: Average interest rates by bank size and ownership in 2013

	Bank size			Bank ownership		Total
	Small	Mid-sized	Large	Domestic	Foreign	
Micro enterprises	23.5	18.5	20.5	20.2	22.1	**20.6**
Small enterprises	18.5	17.1	20.1	18.6	18.4	**18.5**
Medium enterprises	17.1	16.4	19.5	17.8	16.6	**17.4**
Large enterprises	14.8	16.2	15.6	16.1	13.4	**15.3**

Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

- Banks provide loans with **shorter maturity** to micro and SMEs compared to large enterprises, again with significant differences among banks (depending on their size and their ownership) [38]

Table 5: Average maturity (months) of loans bank size and ownership in 2013

	Bank size			Bank ownership		Total
	Small	Mid-sized	Large	Domestic	Foreign	
Micro enterprises	19.8	22.9	11.0	19.7	15.0	**18.8**
Small enterprises	33.6	37.9	44.6	37.8	36.0	**37.1**
Medium enterprises	37.3	46.8	50.3	40.1	47.8	**42.5**
Large enterprises	41.2	57.7	60.0	47.9	50.4	**48.7**

Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

Through both its TA and its credit line components, SUNREF actually aims at tackling these issues that particularly apply to the EE-RE market segment.

[38] Such data can be affected by many factors including how banks define microenterprises or SMEs and the composition of the business finance portfolio. Different lending products (e.g. short/long-term loans, overdrafts, asset finance, etc.) are also characterised by different levels of maturity. (FinAccess Business – supply Bank Financing of SMES in Kenya , September 2015)

Bottlenecks for deploying private financing in the small-scale EE-RE segment

The Energy efficiency and Renewable energy (EE-RE) segment targeted by SUNREF combines both the size issue (SME) and the banks' lack of capacity issue, which are shortcomings when considering access to loans in the Kenyan banking sector. As highlighted in the table below, the energy sector represents one of the least funded sectors, especially regarding micro and SMEs.

Table 6 : Sectoral distribution of lending by size of the firms

	Microenterprise lending	Small enterprise lending	Medium enterprise lending	Large enterprise lending
Agriculture	4.8%	2.7%	4.7%	7.4%
Manufacturing	6.8%	6.6%	12.3%	15.2%
Real estate	0.8%	15.9%	15.9%	19.9%
Construction	6.5%	7.8%	5.7%	6.6%
Trade	61.7%	39.5%	36.3%	21.9%
Transport and communication	12.8%	21.3%	15.6%	7.7%
Restaurant, hotel and tourism	0.9%	2.3%	3.6%	4.1%
Finance and business services	4.9%	2.2%	2.6%	6.3%
Energy and water	0.5%	0.7%	1.5%	10.5%
Mining and quarrying	0.3%	1.0%	1.8%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

This observation is reinforced by the conclusions of a 2012 workshop dedicated to the financing of clean energy in Kenya[39]. It came out from this workshop that the bottlenecks for deploying private financing in the small-scale EE-RE segment in Kenya includes:

- A lack of capacity in local banks to assess the viability of clean energy projects and lack of long-term financing by local banks, combined with the lack of capacity of sponsors to demonstrate the bankability of projects. The TA component of SUNREF, funded by the EU through an ITF grant, precisely aims at tackling the lack of capacity of both banks and project sponsors;
- Difficulty of small-scale decentralized solutions to access finance, which can be too small for commercial lending, and too big for certain grants. The SUNREF credit line component specifically targets these small-scale projects. Furthermore, the credit line also provides funds at below-market interest rates, as market rates provided by banks to SMEs (cf. table 5) are often high compared to EE-RE projects' internal rate of return.

[39] "Unlocking Financing for Clean Energy in Kenya-Workshop - Nairobi, KENYA - 15 May 2012", a workshop organised by the World Economic Forum in collaboration with the Kenyan Government Climate Action Plan, the UNEP Finance Initiative, the UK Capital Markets Climate Initiative and the US National Renewable Energy Laboratory, with the aim to identify critical bottlenecks to financing clean energy in Kenya and to design solutions where public finance can help unlock the private finance.

Other issues include: the inappropriate loan tenors (cf. table 4), and the availability of financial products to mitigate risk (regarding the latter, the ARIZ mechanism had to be used for 2 of the 8 projects funded during the phase I of SUNREF).

Table 7 : The Kenyan commercial banking sector as of December 2013

	Local banks	Foreign banks	Banks with government participation
Small	▪ African Banking Corporation Ltd. ▪ Jamii Bora Bank Ltd. ▪ Credit Bank Ltd. ▪ Charterhouse Bank Ltd. ▪ Dubai Bank Kenya Ltd ▪ Equatorial Commercial Bank Ltd. ▪ Fidelity Commercial Bank Ltd. ▪ Giro Commercial Bank Ltd. ▪ Guardian Bank Ltd. ▪ Middle East Bank (K) Ltd. ▪ Oriental Commercial Bank Ltd. ▪ Paramount Universal Bank Ltd. ▪ Prime Bank Ltd. ▪ Trans-National Bank Ltd. ▪ Victoria Commercial Bank Ltd.	▪ Habib Bank A.G. Zurich ▪ Habib Bank Ltd. ▪ UBA Kenya Bank Limited ▪ K-Rep Bank Ltd. ▪ Gulf Africa Bank (K) Ltd ▪ First Community Bank ▪ GT Bank Ltd	▪ Consolidated Bank of Kenya Ltd. ▪ Development Bank of Kenya Ltd.
Medium	▪ Commercial Bank of Africa Ltd. ▪ Chase Bank (K) Ltd. ▪ Family Bank Ltd. ▪ Imperial Bank Ltd.	▪ Bank of India ▪ Citibank N.A. Kenya ▪ Bank of Baroda (K) Ltd. ▪ Diamond Trust Bank Kenya Ltd	▪ Housing Finance Ltd. ▪ National Bank of Kenya Ltd.
Large	▪ Equity Bank ▪ Cooperative Bank of Kenya	▪ Barclays Bank of Kenya ▪ Standard Chartered Bank (K) Ltd.	▪ Kenya Commercial Bank Ltd. ▪ CFC Stanbic Bank Ltd.

Source: FinAccess Business – supply Bank Financing of SMES in Kenya (September 2015)

Although the SUNREF project addresses all these issues, we note that the subsidized rate of interest creates a pricing distortion – typical SUNREF lending rates of about 4% contrast with market rates of 8-10% for FX borrowing. While it is not the task of this evaluation to focus on this – and furthermore this subsidy was funded by an AFD grant and not the EU/ITF grant – we note that similar projects elsewhere have approached the issue of incentivizing REEE investments differently. In particular a similar project in Mediterranean rim countries focuses on the principal rather than the interest rate to create the financial incentive, and forgives 5-15% of principal after the investment is completed and an independent engineer has certified the level of energy saving actually achieved.

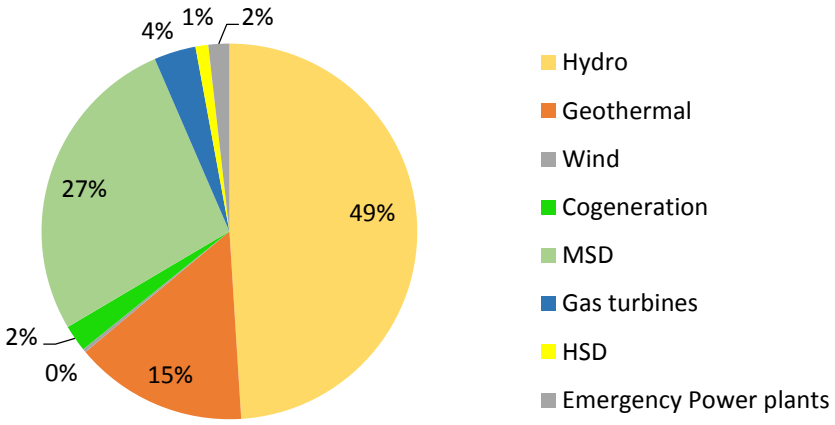
Annex F: Energy Sector Issues & Policies In Kenya

Biomass, electricity and petroleum currently dominate Kenya's energy mix. According to the Energy Regulatory Commission (ERC), traditional Biomass use represents approximately 70% of the total energy consumed in the country with petroleum and electricity accounting for the other, at 21% and 9% respectively[40].

The electricity sector, which traditionally has been heavily reliant on hydropower (see figure 1 below) is slowly undergoing transformation with power from other sources being injected or planned for. By June 2014, Kenya had a total installed capacity of 1,884MW with total generation in 2014 standing at 8,840 GWh[41]. Electricity access rate currently stands at 28% with a significant proportion of these connections concentrated in urban areas[42].

Overreliance on hydropower for electricity generation has had its shortcomings in the advent of climate change causing severe weather patterns including floods and prolonged droughts. This, in the recent past has put considerable pressure on hydropower resources and the entire electricity sector which more often resulted in increased emergency diesel generation as a stop-gap measure[43]. High international fossil fuel prices compounded the problem further by contributing to increased electricity tariffs which in turn derailed the government's efforts of increasing access to affordable and reliable electricity.

Figure 1: Electricity generation mix in Kenya in 2014



Source: Draft National Energy Policy, 2015

According to the African Development Bank (AfDB), by 2014, Kenya's average electricity generation cost was quite high, comparing unfavorably with its neighbors in the resulting electricity tariffs at USc 19.7/KWh. Frequent power outages resulted creating a major constraint on Kenya's economic growth as they directly contributed to 7% in lost private

40 PWC (2013): Energy Industry in Kenya, found at pwc.com

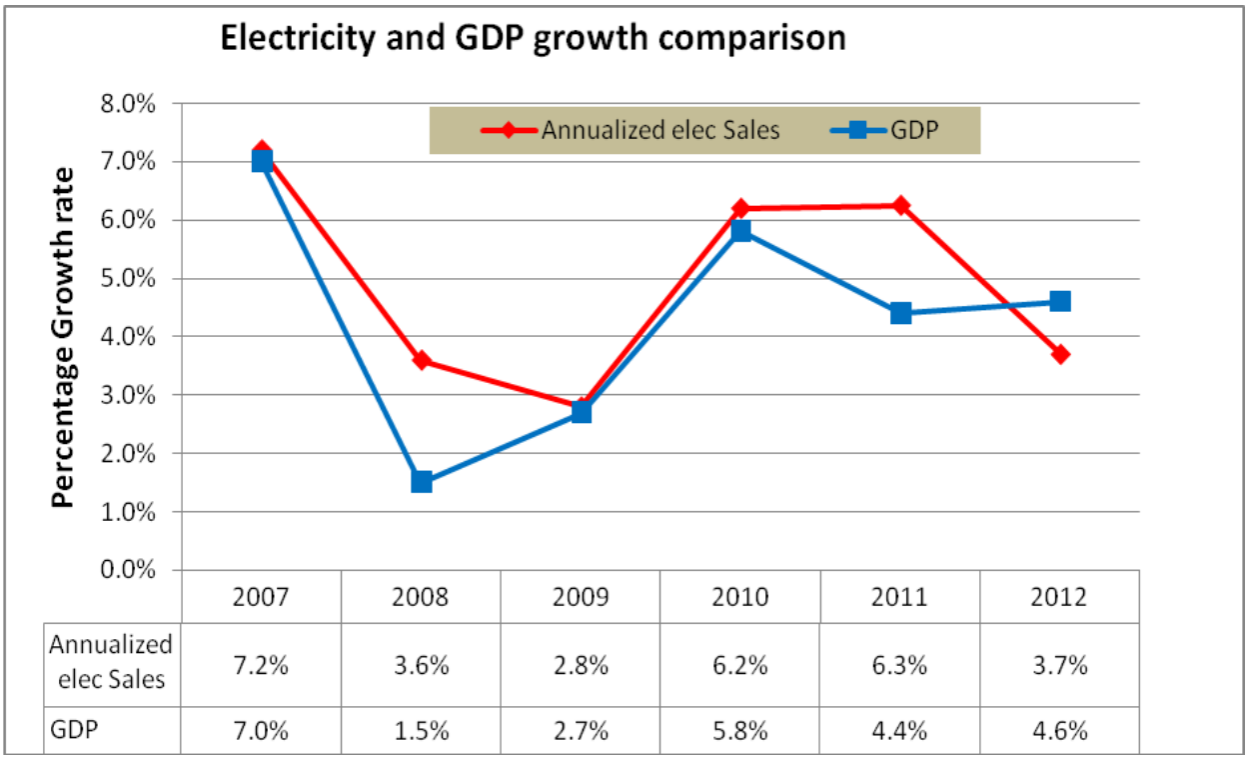
41 Kenya Power Annual Report, 2013 - 2014

42 Kenya Power Sector Medium Term Plan 2014 - 2018

43 AFDB Kenya Country Strategy Paper 2014-2019

sector sales revenue, 2% of total GDP and 1.5% of GDP growth (Ministry of Energy, 2011). The intertwined relationship between electricity sales is best demonstrated by the GDP growth trend between 2007 and 2012 as shown in figure 2 below. Growth in electricity consumption closely reflects the country's economic growth pattern.

Figure 2: Electricity and GDP growth in Kenya between 2007-2012



	2007	2008	2009	2010	2011	2012
Annualized elec Sales	7.2%	3.6%	2.8%	6.2%	6.3%	3.7%
GDP	7.0%	1.5%	2.7%	5.8%	4.4%	4.6%

Source: Kenya Power Sector Medium Term Plan, 2014-2018

In 'Vision 2030', Kenya's economic blue print recognizes energy as one of the infrastructural enablers stressing the need for Kenya to generate more energy and increase efficiency in its consumption. The strategy seeks to increase installed capacity from a low of 1,460MW in 2010 to 15,000MW in 2030 through a mix of renewables (notably geothermal), coal and natural gas generation plants. More succinctly, the Second Medium Term Plan (MTP II) has an ambitious target of increasing both rural and urban electricity access rates by 50% and reducing electricity costs by 50% by year 2018[44]. Key policy changes within the last decade sought to chart this course with the Government of Kenya (GoK) actively seeking to shake off over reliance on the climate-vulnerable hydropower and the relatively expensive and "dirty" diesel generation. The Energy Policy of 2004 is a policy instrument that kicked off liberalization of the sector by unbundling of electricity services through creation of three separate companies; Kengen, Ketraco and Kenya Power, charged with generation, transmission and retail distribution of electric power respectively. The Energy Act of 2006 further sought to leverage private sector capital through creation of a framework that led to formulation of the 2008 Feed-in-Tariff (FIT) policy for small scale renewable energy projects.

[44] Second Medium Term Plan (2013-2017), found at vision2030.go.ke

The FIT policy has since been reviewed twice to align with private sector expectations and to simplify the regulatory processes. The latest, the 2012 FIT policy which expanded technologies covered to include small hydropower, wind, solar, geothermal and biomass, came with a standardized power purchase agreement (PPA) template which simplifies the development process, increasing predictability while reducing costs.

The government's policies towards energy efficiency (EE) currently aim at providing information and technical capacity needed to adopt energy efficiency technologies. GoK has also instituted regulations requiring a certain level of energy performance. The large potential for energy savings in Kenya that includes a large array of no-cost and low-cost interventions imply that financial gains from energy savings over a reasonable payback time are greater than the needed investment[45].
Government regulations in energy efficiency include the Kenya Solar Water Heating Regulations issued by the Ministry of Energy that require installation and use of solar water heating systems for all buildings with a capacity for hot water requirements exceeding 100 liters a day[46]; and the Kenya Energy Management regulation that mandates facilities to conduct energy audits and subsequently implement at least 50 percent of identified energy efficiency measures[47]. Enforcement of these regulations remains a challenge, although some supportive programs have been put in place including GoK's collaboration with the Kenya Association of Manufacturers' (KAM) Centre for Energy Efficiency and Conservation (CEEC) to promote energy efficiency in the energy intensive industrial sector which represents approximately 60% of overall electricity consumption in the country.

Through Kenya Power, GoK also seeks to diversify EE away from large scale industrial complexes and into households where enormous potential for energy savings through EE exists. Kenya Power for example, distributed approximately 1.25 energy efficient CFL bulbs in 2010 to households using the inefficient incandescent bulbs[48]. Similarly, a standards and labeling program being implemented by GoK seeks to mandate manufacturers of electrical equipment (both household and industrial) to meet certain minimum performance requirements and have the levels of performance clearly labeled.

Despite all this, however, private capital inflow in small scale power development and energy efficiency projects has been sluggish due to a variety of factors key among which is access to competitively priced debt. While Kenya's banking sector is vibrant and relatively well established, longer tenure project financing as opposed to short term balance sheet financing is an altogether unexplored territory. Limited internal experience and capacity of banks to carry out due diligence for these projects makes it difficult to whet the banks' appetite for the business presented by the sector. Developers on the other hand are also relatively inexperienced and lack capacity to carry out sufficient bankable early stage project preparation. Quality feasibility studies and reliable energy audits for RE and EE projects respectively that are the bare minimum in packaging of RE/EE projects for financing cost a small fortune in upfront costs that in most cases, developers cannot afford. The poor quality and un-bankable feasibilities and energy audits that result, as developers opt for relatively

45 Bellanger, M. 2010. Technical Assistance to the Ministry of Energy. Nairobi: French Development Agency
46 Ministry of Energy (2012): The Energy (Solar Water Heating) Regulations
47 Ministry of Energy (2012): The Energy Management Regulations
48 The Kenya Engineer, 2013: Journal of the Institution of Kenya Engineers; found at iekenya.org

cheap but low quality consultants, do little to demystify some of the perceived risks associated with the projects.

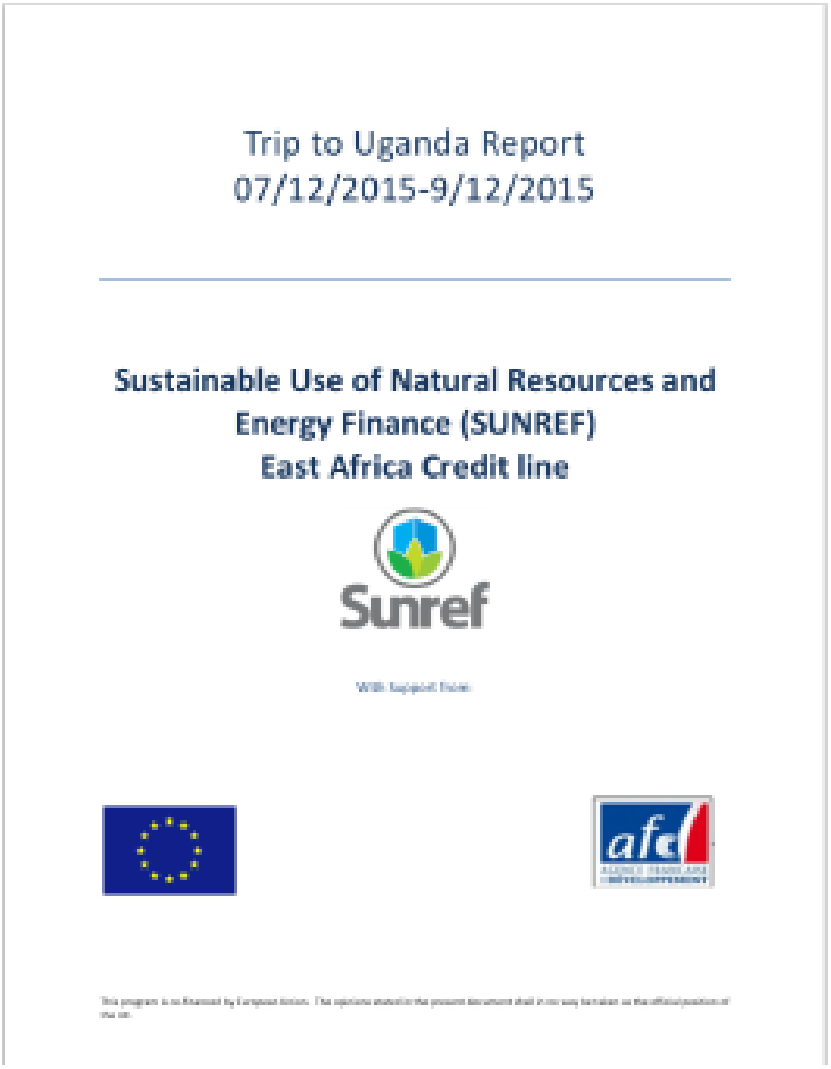
To overcome these hurdles, the French Development Agency – AFD launched a credit line supported by a technical assistance program, partially financed by the European Union in 2011 to provide debt financing and quality technical expertise to EE and RE projects in East Africa. The Sustainable Use of Natural Resources and Energy Financing program (SUNREF) as it's known seeks to provide long term debt at concessional rates to project developers besides providing technical assistance in the form of identification of bankable EE and RE projects, technical and financial support during development and increasing knowledge and expertise among stakeholders including banks, developers, consultants etc.

Annex G: Survey of Final Beneficiaries

Project identification (title, status, etc.)	600kW Solar PV Grid Tie for Strathmore University (completed in June2014).
What is your involvement/role in this project?	
As the director of Strathmore Energy Research Centre I championed the project and oversaw the implementation.	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	We started by the financial analysis and realize the project could reduce operational costs and save an estimated 5 million dollar during its lifespan. The second hurdle was to convince the University Council of the reliability of solar technology. Their approval opened the road for RFP, selection of the best bid and eventual implementation and commissioning.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	It started providing power to our own consumption and dispatching over production to the grid on the 24th June 2014. To date the system has produced more than one million units of electricity saving an estimated 180,000 USD in payment to the utility. We are still to get Kenya Power to pay for the dispatched electricity as we are in the process of installing the metering system in accordance with their standards.
Who are the people benefiting the project?	The ultimate beneficiaries are the young Kenyans pursuing high quality third level education as Strathmore is a non-for-profit institution, any saving in operational costs eventually revert on lower fees to be paid by our students.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Because Strathmore houses the Strathmore Energy Research Centre whose mission is to train engineers on Solar PV, the AFD supported system has been used as a "live laboratory" to show engineers and high-level technicians how to design, install and maintain grid-tie solar PV systems. We are to sign a MoU with Kenya Power Institute to help the utility to upscale the training of their staff.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	As Strathmore became the first "Zero-Carbon Footprint University in SSA" it really created a high level of awareness amongst other universities. On 11th December 2015, I gave a talk on the PV system to 41 Kenyan Vice-Chancellors and head of training units in Mombasa. The interest was enormous and we are now holding meetings with each of them to see how to help them to adopt solar technology to cut operational costs.
Have any (temporary and permanent) jobs been created?	Once the warranty period expired, we trained a student from Strathmore on how to maintain the system. This student has registered a company and is now doing the maintenance of our Solar system under a one year contract. He hires casuals to help him.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	The scope of education of our university is the so called "all round education" and thus the "going green" affects everyone. We are using the solar system to create awareness amongst not only our business students but also the lawyers and actuarial undergraduates such that all graduands will leave Strathmore with a greater concern for the environment and a deeper commitment to a better world.
Is there anything that can be improved?	
We want to add 400 kW to reach the 1 MW threshold and thus qualify for the upcoming Get – Fit program meant to be implemented in Kenya this year.	
Do you have any other comments?	
A vote of thanks to the people of France for the wonderful support it gave to Strathmore University allowing us to overcome the Financial barrier to go Solar with all the positive impact it brought with for our university in particular and for the country as a whole.	

Annex H: Visibility of EU

A. An example of a recent SUNREF technical report cover.



Trip to Uganda Report
07/12/2015-9/12/2015

Sustainable Use of Natural Resources and Energy Finance (SUNREF)
East Africa Credit line

Sunref

B. WATSAN: Billboard on the project site

Source: NWSC of Uganda website https://www.nwsc.co.ug/

Annex I: Pictures

A. Strathmore University Solar Power Plant installations

Figure A1: Photo showing a section of the 600KW roof-mounted solar PV panels at Strathmore Business School

Figure A2: Discussions in the Training Facility which Strathmore has launched for officers of KENATCO in renewable energy installations and maintenance.

Figure A3: Photograph showing an array of stand-by diesel generators at Strathmore Business School whose use has been significantly reduced since installation of the solar PV modules

B. Alpha Knit energy savings installations

Figure B1: New energy efficient boilers (can use wood - certified as renewable – as well as biomass briquettes)

Figure B2: Old knitting equipment targeted for replacement in a scheduled factory refurbishment which also hopes to benefit from the upcoming SUNREF phase II

Figure B3: New energy efficient knitting equipment whose installation was supported by SUNREF

C. KTDA/Gura Hydro Power Plant (under construction)

Figure C1: Photograph showing a section of the forebay under construction at KTDA's Gura small hydropower project in Nyeri

Figure C2: Intake weir under construction at Gura

Figure C3: Intake channel showing gate chambers at Gura SHP project

Figure C4: Downstream view of a section of the Gura Small hydropower project water canal

Figure C5: A section of the penstock under construction at Gura. The powerhouse can be seen nestled between the trees in the mid-ground near the

river

D. Lean Energy (Biomass)

Figure D1: A motor at Lean Energy's briquetting factory in Kiambu. The briquette extrusion system can be seen on the left

Figure D2: Sawdust dryer at the factory. The dryer runs on biomass feed, mostly twigs and left-overs from lumbering activities

Figure D3: A sample of briquettes produced at the factory

Figure D4: Discussions with technicians at the briquetting factory. A stockpile of briquettes ready for packaging are seen on the left while packed briquettes can be seen in the background

Case study note – Moldova

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1. Introduction and context

With 14 NIF grants totalling around €100.7 million, Moldova ranks as the country with the highest volume of blending projects, based on the overall sample covered by the evaluation scope. This represents €28.3 of NIF grant per capita given that Moldova has 3.6 million inhabitants.

1.1 The Economy and blending[49]

Moldova is one of the poorest European countries. Its economy, mostly based on agriculture, has known a strong growth performance over the 2010-2014 period (average GDP growth of 5.4%). However, this growth remains quite volatile (-0.7% GDP growth in 2012 and +9.4% GDP growth in 2013). This volatility can be explained by the vulnerability of the economy to external and climatic shocks, such as drought and Russian trade restriction (wine used to be one of the country's main exports and was for a long time its main source of hard currency; in 2005 Russia banned the import of Moldovan wines, citing poor quality). The Moldovan economy still exports very little and is heavily dependent on remittances from Moldovans working abroad, especially from Russia, and so has been badly affected by Russia's recent economic difficulties.

Moldova displays a number of features that makes it a 'classic' blending country:

- **Middle income:** the GNI per capita[50], using the World Bank Atlas method is $2560, which places it in the lower middle income category (annual per capita GNI range of $1045-$4125). This implies that development partners will not provide grant-only financing for Moldova, even though its economy is not yet sufficiently advanced to sustain loan-only finance in all cases.
- **Transition:** Transitioning from a former centrally-planned economy to a market economy, Moldova has been making significant reforms and as result, was ranked among the top ten reformers in 2008-2009 in the Doing business ranking and as the 2nd among the economies that improved the most in Doing Business 2012. But the situation has deteriorated the last years due to political instability and high-level of corruption.
- **Low risk of debt distress:** The IMF classified Moldova at a low risk of debt distress. This fits with the requirements for a blending country, which require sufficient fiscal space to absorb the loan component of blending finance. Moldova can borrow on highly concessional terms (minimum 35% for the grant element).
- **Sector priorities:** Since 2010, Moldova has been a member of the Energy Community and a signatory of the Energy Community Treaty, whose one of the goals is to "*create a stable legal and market framework capable of attracting investment*". There is indeed a need to improve the investment climate in Moldova and not only for investments in energy but also in PSD and in transport and water infrastructures. The EBRD is actually undertaking a legal reform project in Moldova to develop energy efficiency and renewable energy programmes and create enabling conditions for PSD. These priorities are all suited to blending finance.

[49] http://www.worldbank.org/en/country/moldova/overview#1 ; https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf ; http://www.doingbusiness.org/reports/global-reports/doing-business-2012 ; http://www.bbc.com/news/world-europe-35410818; World Bank Group – Moldova Partnership Country Program Snapshot April 2015; https://www.eureporter.co/world/2015/04/30/1-billion-cannot-be-siphoned-out-of-moldova-in-one-day/ ; https://openknowledge.worldbank.org/handle/10986/22910 ; http://www.economist.com/news/finance-and-economics/21660165-banking-scandal-set-bankrupt-europes-poorest-country-gutted; http://www.moldpres.md/en/news/2015/03/14/15001716

[50] According to the World Bank Atlas method (source: World DataBank, January 2016).

- **Open policies:** Moldova has policies that are aligned with international donor priorities, and linked to the Deep and Comprehensive Free Trade Agreements (DCFTA) signed in 2014, as part of the European Neighbourhood Policy. The DCFTA sets up a free trade area between the EU and Moldova and implies that renewable energy, energy efficiency and several climate-related topics (environment, conservation) are prominent on the national investment stage. These fit with the objectives sought for blending finance.

The banking crisis[51], combined with a decline in exports to Russia (under an embargo imposed by Moscow over Moldova's signing an Association Agreement with the European Union), a drop in external loans and foreign investment, drastic reduction of money transfers from Moldovan migrant workers (whose money is a major contribution to the economy of the small country), and contentious political climate before Parliamentary elections (in 2014) and after have led to a sharp depreciation of the national currency (depreciation by about 30% against USD in 2015) .

1.2 Development cooperation

Moldova works actively with various development partners: global institutions (World Bank, UN), European institutions (EBRD, EU, SDC – Swiss Agency for Development and Cooperation, ADC – Austrian Development Cooperation, Sida), and American institutions (USAID)

a) **Moldova's cooperation priorities with the EU focus on transport, agriculture and rural development, public administration reform, and border management.**
    - Under the ENPI of 2007-2013, the EU provided support to the energy sector, transport infrastructures, and focused on rural and regional development, and reforms in justice (especially on migration issues, border management, and on fight against terrorism and organised crime).
    - In 2008, the EU launched the Neighbourhood Investment Facility (NIF) to promote investment in neighbourhood countries. In Moldova, the NIF has mainly targeted investment projects in transport, water and energy. The list of blending projects financed with NIF grants is in annex C.
    - The priority sectors under the ENI for 2014-2017 are agriculture and rural development, public administration reform, and police reform and border management.

b) **Moldova's development cooperation with other partners focuses mainly on water and sanitation, transport infrastructures and support to private sector.**

[51] Weaknesses in the share registry system in the financial sector have contributed to "raider attacks" in which securities have been fraudulently transferred from their rightful owners to others. At least three banks are believed to have been subject to a change of control as a result of such processes since 2013. These three banks (Banca de Economii, Unibank, and Banca Sociala) were placed under special administration between late November and mid-December 2014 due to large and opaque transactions between themselves and with foreign banks and companies. Indeed, in 2015, more than €1bn (£710m) disappeared from the three banks that were left insolvent. It was suspected that the money was embezzled. The loss also put a heavy strain on the financial system, since the €1bn represented about 14% of the country's GDP. The banking crisis has impacted notably EFSE operations in the country.

- EIB's portfolio in Moldova is divided into transport (48%), credit lines (30%), agriculture, fisheries and forestry (12%), water and sanitation (7%), and energy (3%).[52]
- EBRD is mainly investing in transport (65%), financial institutions (17%), industry, commerce and agribusiness (12%), and energy (6%).[53]
- KfW in Moldova supports mainly the financial and private sector, and the decentralisation process[54].

1.3 Methodology and projects selected

Moldova is one of the 3 countries of the neighbourhood region selected for field missions. The 2 NIF regional projects of the sample, dedicated to MSMEs, are being implemented there. The cooperation in Moldova used a range of modalities, including budget support, as well blending especially in the water and energy sectors. Moldova also provides an example of how blending projects operate and contribute in transition countries.

The country mission started with a review of the entire desk based information and finalisation of a list of relevant stakeholders. It was possible to meet all the stakeholders identified by EU delegation officials and by the evaluation team, including IFI local offices, national partner officials and partner financial institutions. A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study.

The evaluation focussed on 5 projects that were completed or partly completed and formed part of the sample:

- MD- 03 Chisinau Public Transport Project (2010-2013) – a EUR 15.45 million investment led by EBRD with a NIF grant of EUR 3 million (completed).
- EBRD-06 Feasibility Study for the Improvement of Water and Sanitation Systems in Chisinau (2009-2012) – a EUR 3.15 million TA led by EBRD and funded by a NIF grant (completed)
- MD-02 Moldova Road Rehabilitation project (2008-ongoing). This EBRD-led project is the EU co-financing contribution, being implemented through the EUR 12 million NIF investment grant, to the second phase of "Moldova Road Rehabilitation project" with the budget of EUR 52.5 million, and a total project budget of EUR 92.5 million.
- EBRD-13 SME Facility - EBRD / KfW window – a regional project with a NIF contribution (EUR 10.2 million) in TA and loan guarantee (2010- ongoing)
- KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund (ENBF) window of the European Fund for South East Europe (EFSE) – EUR 5.1 million NIF contribution in risk capital (2009-ongoing)

52 EBRD website, 01 February 2016; see also Annex C

53 EIB website ("Finance contracts signed - Moldova"), 29 January 2016; see also Annex C

54 https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Europe/Moldova/

2 Conclusions

2.1 Strategic relevance

Moldova is not wealthy enough to sustain all-loan finance[55]. In the case of infrastructure projects, the limited borrowing capacity of the beneficiary was indeed mentioned as one of the main argument for blending. The road sector was suffering from chronic underfunding suffer due to lack of budget resources. For the Chisinau Public transport project, the grant served to compensate the low borrowing capacity of both the municipality and the transport company. Finally, the water company didn't have the capacity to finance feasibility studies. Given the difficulties and constraints from borrowing on the local market (limited availability of long term resources, high interest rates, etc.), the NIF grants diminish this burden and make possible to implement investment projects.

The catalytic effect of blending, in terms of attracting additional financial resources from IFIs to finance the projects, was mixed. For the regional SMEs projects, the catalytic effect was high. The EFSE Fund at highest level (i.e. beyond Moldova) used grants to invest in C-shares, thereby providing comfort (a risk cushion) to mobilise private capital for financing MSME and housing loans in the region, including Moldova. In the case of the Road rehabilitation project however, the NIF investment grant was needed to achieve the 35% required level of concessionality. In this case, the investment grant contributed to increase the scope of the work (an additional segment of the road), rather than having a catalytic effect. For the Public transport project, the amount of the grant (and overall amount of the project) came from the feasibility study conducted by the lead IFI, and from discussions and negotiations between the IFI and the Municipality.

Evidence that projects faced special challenges which "blocked" progress until this was unblocked by blending is uneven among projects. For the 2 regional SMEs projects, financial intermediaries have clearly mentioned that either the guarantee mechanism (SME FF) or the loans and TA received from EFSE have been determinant in their current strategy toward the lower segment of SMEs, thanks to the risk sharing instrument (not proposed by other financiers), the reinforcement of their internal capacity (not proposed by other microfinance investment vehicles), and the availability of medium and long-term resources in local currency (EFSE was the only one to propose this to its partner financial institutions during the banking crisis). Regarding the Water Feasibility study, it was mentioned that the NIF was the only grant available for the water sector at the time when the project was designed. For the road and transport projects, blending was necessary to overcome the concessionality requirement and the limited borrowing capacity of the beneficiary, but it is not clearly stated to which extent the EU grant was the only option to make the project happen. From the discussion with the EU Delegation, it was also mentioned that the country has beneficiated a lot from the NIF, and that in the future the situation may change (more in-depth assessment of the projects, to ensure efficient use of the NIF). Furthermore, the Delegation is now involved at the very beginning of the design of the projects, which should also contribute to ensure an efficient and more catalytic use of the instrument.

[55] See also the IMF Country Report No. 14/190 (July 2014), which mentions that the high level of concessionality of official borrowing helps Moldova to keep its external debt service manageable.

2.2 Added value of blending

Blending projects have contributed to the design and the implementation of policy reforms in the country, but unevenly among the sectors. The TA provided through blending has been a contributory factor in promoting sector reforms.

- Blending projects have contributed to policy reforms in infrastructures and transport sectors. Specific conditions were attached to the Road project, including the adoption of a Road Sector Strategy and the reform of the road sector financing. The Land Transport Infrastructure Strategy was approved in 2008, replaced in 2013 by the Transport and Logistic Strategy for 2013-2022. A decision regarding the road fund was also taken in 2009 (80% of the excises collected from fuels are for road fund, as a result, the revenue of the fund grew from about MDL240 million in 2009 to more than MDL1030 million in 2012). Following the Chisinau Public transport project, a new strategy for public transport up to 2025 is being elaborated by the Municipality. Furthermore, the project came with requirements for further developments of the public transport that are being implemented, such as introducing the electronic ticketing and traffic control system. Based on the Feasibility study for improvement of Water and Sanitation Systems in Chisinau, several improvements took place in the regulatory framework. A new law on water supply was elaborated, the tariff settings became more independent from political involvement, and the role of the National Agency for Energy Regulation (as independent regulator in water sector) has been increased.
- The contribution of blending projects to reforms in the financial and SMEs sectors has been limited. Regarding the SME FF, no policy dialogue has been conducted for the leasing sector in Moldova. EFSE's implementing partner has been involved for a while in a dialogue for the adoption of a 1st draft law on Non-Bank Financial Institutions (prepared with the support of the World Bank). The law has not been approved yet. EFSE's implementing partner is now focusing on financial education. Jointly with local stakeholders (ministry of finance, ministry of economy, local bank of Moldova, ministry of education, national commission for financial markets), they are working on the national strategy of financial education. In addition, following the problems in the banking sector that occurred in Moldova in 2011, a number of investors (including EBRD and KfW) engaged in discussions with the government (notably on ownership transparency) with the EUD playing a supportive role.

There is evidence that EU grants were instrumental in improving access to finance for MSMEs and, to a lesser extent, in improving MSMEs capacity to deal with financial intermediaries. The SME FF risk sharing mechanism has increased the willingness of the financial intermediaries to provide services to more risky clients. The partner has for instance mentioned that thanks to the 1st loss cushion, it has changed its risk policy and decided to serve more risky clients (the SMEs' share in its portfolio for instance, has increased by 33% between 2012 and 2015). Through its Development Fund, EFSE has been provided TA to MFIs in terms of risk assessment, sound corporate governance, etc. One of the current partner financial institutions had limited internal capacities. It had beneficiated from TA in MSE lending, management, business planning, financial management, and operational improvements. Thanks to EFSE, the partner has now internal expertise and specialisation in terms of rural finance, agriculture finance, and consumption loans. EFSE has provided medium and long term loans in Moldova, including in local currency. Given the banking sector context, this was determinant for reaching the most vulnerable MSMEs. EFSE has been active in initiatives to increase financial literacy of school age kids, jointly with the National Bank of Moldova (edition of books about savings, booklets on how to assess the risk of loan in local currency versus foreign currency, etc.). It appeared

however from field visits that the level of financial literacy of end beneficiaries was not limited, as almost all of the beneficiaries visited were able to compare offers from different banks and determine what the best option for them was, without any support from EFSE.

Blending projects have led to the delivery of high quality infrastructure and equipment, and paid attention to operation and maintenance. However, the role of the grant on project quality was limited. The quality of blending projects reviewed was high, notably thanks to the feasibility studies and the TA associated. However, the impact of EU on projects design and implementation was quite limited, especially for projects approved before 2013, as the EUD has been involved by IFIs only when projects were already mature. Given this late involvement and the limited available resources in the EUD compared to IFIs, the EUD has only been able to provide suggestions and advice to improve the projects at the margin. Furthermore, IFIs requirements notably in terms of quality standards and environmental concerns are the same those of the EU. There is therefore no specific added-value of blending in this regard. Measures to ensure projects' sustainability, as a reform of the road sector financing, have been implemented. The transfer of technologies and the capacity to replicate the projects is evident in the case of the Chisinau Public transport project. The Municipality is building upon the blending project to develop its transport strategy, and the assembling of the trolley buses in now realized in Chisinau (expertise acquired thanks to the project during which the buses were assembled in Minsk).

The reduction of transaction costs was not observed in practice. There are additional transaction costs for IFIs, related to preparation of the documents for EU, including approval of the EU NIF grant, drafting and negotiation of the legal agreements and then further monitoring and implementation. However, they were not perceived by IFIs as essential barrier to the implementation of the project. Parallel financing usually requires more efforts/transaction costs from the IFIs but this was also perceived as acceptable by them in Moldova. Parallel financing also required more efforts from the Road Rehabilitation project implementing partners, as payment procedures were not aligned among EU and the IFIs. For partner financial intermediaries, the reporting effort required by EFSE was perceived to be significantly lower compared to other fund providers (including another IFIs operating in the country).

Regarding the visibility, the awareness about EU grants in the projects was uneven among projects and beneficiaries profiles. EU visibility up to end beneficiaries is higher in infrastructure projects (with for instance EU logos on each trolley buses, and a billboard on the segment of road that has been funded by the NIF grant), than in the regional MSMEs projects (in the case of the SME FF, the information about the EU support is not explained to end beneficiaries, given its nature; in the case of EFSE, one of the interviewee from a partner financial institution was not aware of the EU involvement in the fund). However, especially regarding infrastructure projects, the EU visibility was affected by the fact that contracts are signed by IFIs with the government, on behalf of the EU.

2.3 Results

There is evidence of blending projects' physical results, environmental benefits and wider contribution to development.

- In terms of physical results, 102 trolley buses and maintenance equipment have been delivered on time with the Chisinau Public transport project, at the quality standard required. Thanks to the Moldova Road rehabilitation project, 21.19 km of roads were rehabilitated with the NIF grant, on the most important connections in the country,

between Chisinau and Balti cities (2 economic centers). The intensity of the traffic (Annual Average Daily Traffic) has increased from 4352 in 2007 to 7170 in 2015. Regarding regional SMEs projects, thanks to the availability of the guarantee mechanism (SME FF), the share of SMEs clients in the partner portfolio has increased from 60% (in 2012) to 80% currently (shift from individuals to SMEs), and the equipment sector for SMEs now represents 35% of the portfolio (10% in 2012). Between 2006 and 2015 in Moldova, EFSE has approved a total amount of 100 million EUR of loans (facilitating a total amount of 149 million EUR of sub-loans), corresponding to 14 368 sub-loans, and has financed a total of 1.6 million EUR of TA (43 projects implemented).

- Environmental benefits: the Chisinau Public transport project has reduced the number of minibuses in the municipality from 1800 (before the project) to 1300 minibuses, which has improved the traffic and the ecological situation in the city. The Road rehabilitation project has contributed to positive environment impacts, notably through landslide stabilization, less specific air pollution, less fuel consuming, decreased risk of soil pollution, and the care of green plantations along the roads. Regarding SMEs regional projects, EFSE's end beneficiaries have mentioned investments in energy efficiency equipment thanks to the loans received from partner financial institutions.

- Wider contribution to development: the Chisinau Public transport project have improved the accessibility of public transport for disabled persons. Furthermore, it has avoided that the Transport Company fire people due to its obsolete fleet (at the contrary, jobs have been maintained and the salaries have increased). 12 permanent jobs have been created for the assembling of the buses in Chisinau. The Road rehabilitation project have contributed to improve road safety conditions (leading to decreased risk of car and local resident accidents). During the project, temporary jobs have been created (about 88 units), and after its implementation permanent jobs have been created in small markets, shops, bars alongside of the road. An evaluation was conducted in 2014, to have the views of the population living in villages along the road, regarding the impact of the road rehabilitation for them. Most of them were happy and mentioned a significant improvement of the quality of infrastructures in their village. EFSE has contributed to strengthen the financial sector of the country in general, and microfinance sector in particular. EFSE's end beneficiaries have mentioned as benefits of the loans access to university for their kids and improvement of family revenues.

3 Findings across the evaluation questions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
Each of the projects examined had an identifiable challenge which provides arguments to justify the use of a grant: ▪ The Chisinau Public transport project has been designed to overcome the "catastrophic" situation faced by the Municipality in terms of electric transport (80% of the vehicles were obsolete). The grant served to compensate the low borrowing capacity of both the municipality and the transport company. The amount of the grant (and overall amount of the project) came from the feasibility study conducted by EBRD, and from discussions and negotiations between the IFI and the Municipality. The NIF was the only source of grant funding available for the transport sector. (JC 1.3; interview with IFI, Municipality and Transport company) ▪ The Feasibility study for improvement of Water and Sanitation Systems in Chisinau was necessary to develop the Priority Investment Program (PIP) for the municipal supplier, due to the very poor conditions of the infrastructure (water and wastewater networks were in very poor conditions, the treatment of wastewater was causing odor nuisance to the citizens). The water company didn't have the capacity to finance feasibility studies. The NIF grant was, at that time, the sole alternative to have the necessary funding resources for the water sector. Now, the 1st choice would be the E5P[56] (JC 1.3; interviews with IFI and Water company; Water company, Inception report, 2011) ▪ In 2006-2008 only about 10% of the roads were in "satisfactory" or "good" conditions (according to national criteria), and the sector was suffering from chronic underfunding suffer due to lack of budget resources. Furthermore, a grant component was required for the Moldova Road rehabilitation project, given the concessionality requirement from the IMF (35%). Neither EBRD nor EIB offer concessional terms. The NIF grant was therefore needed to achieve the required concessionality. (JC 1.3; interviews with IFI ; National Development Strategy "Moldova 2020", 2012) ▪ The EFSE Fund at highest level (i.e. beyond Moldova) used grants to invest in C-shares, thereby providing comfort (a risk cushion) to mobilise private capital for financing MSME and housing loans. The SME FF project used grants to provide a guarantee which – as a risk mitigation mechanism – encouraged financial institutions and leasing companies to finance SMEs, which hitherto they had avoided. These regional projects were particularly relevant in the context of Moldova. Regarding the SME FF, the 1st loss cushion was perceived as substantial by leasing companies to achieve their goals in the SME sector while minimizing their risk. Thanks to EFSE fund, financial intermediaries were able to get access to medium term loans in local currency, despite their scarcity on the local market due to the banking sector crisis (cf. section 1.1). Loans in local currency are relevant for a certain profile of MSMEs (for instance, micro rural enterprises, not related to the export market). (JC 1.3; interviews with IFIs and financial intermediaries) Furthermore, blending is also perceived to be relevant when related to large (infrastructure) projects that could not be financed only with EU funds, whereas NIF grants will be less relevant for small projects that could be financed via other instruments (JC 1.3; interviews with EUD)

Desk hypothesis	Evidence

[56] The Eastern Europe Energy Efficiency and Environmental Partnership ("E5P") unites the Eastern Partnership countries, European Commission and other bilateral donors, and the main IFIs active in the region to coordinate and accelerate the implementation of important energy efficiency and environmental projects. "E5P" is now starting with Ukraine and other countries are expected to join. EIB (together with Ukraine, European Commission, EBRD, NIB and the World Bank) is a member of the E5P's Steering Group (SG) which is the main operative body. EIB, together with the other IFIs, are observers to the Assembly of Contributors, the decision making body in allocating E5P grants. http://www.eib.org/projects/regions/eastern-neighbours/framework/E5P.htm

That projects posing specific challenges requiring blending will continue to grow	Confirmed. Moldova needs blending to pass the transition period and face challenges regarding public infrastructure, pro-poor growth and environment. Blending indeed contributes to overcome affordability issues and budget constraints. It should be mentioned that since 2011, the 35% concessionality requirements applies only to bilateral loans ("*External-debt ceilings apply to the contracting or guaranteeing by the general government or any other agency acting on behalf of the general government",* Moldova – IMF Memorandum of 2011).

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)

The blending projects examined all supported and were well aligned with EU policies which include the development of sustainable transport systems, the improvement of water quality and resource management. (JC 2.2; interviews with EUD, national partners and IFIs; EU, Association agreement between the EU and the EAEC and their member states of the one part, and the Republic of Moldova, of the other part, 2014)

The blending projects are in line with national/regional policies and helps to achieve national policies and objectives:

- The Municipal Public Transport Strategy approved in 2006 stated the procurement of 20 trolleybuses yearly. However, in 4 years only 20 trolleybuses were procured. In 2011, as a result of the Chisinau Public transport project implementation, the transport company bought 102 trolleybuses, which actually covered what has been planned in the 2006 strategy. (JC 2.3; interviews with Municipality and Transport Company ; Technical due diligence report, 2010)

- The Feasibility study for improvement of Water and Sanitation Systems in Chisinau was in line with the National Strategies on Water Supply and Sanitation (approved in 2007 and in 2014), and overall country Strategies in period 2005-2014 which objectives regarding poverty reduction and environment. (JC 2.3 ; interviews with Water company)

- According to the Strategy Moldova 2020 (approved in 2012), the road infrastructure is one of the main constraint of the economic development of the country. The Moldova Road rehabilitation project fits perfectly with sectoral and national strategies and policies (Land Transport Infrastructure Strategy 2008-2017; Transportation and Logistic Strategy 2013-2022), which contain direct references to NIF financing. (JC 2.3; interviews with the State Road Administration, National Development Strategy 2008-2011; Moldova 2020, 2012; Sector strategies)

- The 2 regional projects dedicated to SMEs are aligned with national strategies that include as objectives the development of SMEs and the facilitation of their access to finance (NDS 2008-2011, Moldova 2020). Furthermore, the sector strategy for SMEs development (2012-2020) contains as priorities "improving access of SMEs to finance", "enhance competitiveness of SMEs" and "development of SMEs in regions". Both regional projects support these objectives by reinforcing the leasing sector for SMEs and by building the operational and financial capacities of financial institutions operating on the SME segment. (JC 2.3; interviews with IFI; National Development Strategy 2008-2011; Moldova 2020).

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	Confirmed. There is evidences that infrastructure projects are aligned with policy priorities. The alignment is also confirmed for the regional projects dedicated to access to finance for SMEs.
That the training has been sufficient	Confirmed. The EUD staff has received training on blending over the period 2007-2014 and is fully aware about the topic.
That IFIs and EUDs are clear on the criteria	Confirmed, as no adjustment or delays in guidelines and procedures were reported for the projects covered. However, before 2013, the involvement of EUDs in project design was limited.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)
The IMF-level conditions (on average the annual loan agreements need to demonstrate a minimum level of 35% concessionality), combined with the borrowing capacity of beneficiaries was the main argument provided to justify the grant size in infrastructure and transport projects. It should be noted that national entities interviewed were not able to provide an explanation on the level of the grant. (JC 3.3; interviews with IFI, Municipality, and State Road Administration) Regarding EFSE and SME FF, the overall NIF contribution is not related to Moldova. At country level, the rules fixed at the project level applied for the SME FF, i.e. the first loss cushion corresponds to 10% of the IFI loan. In the case of BT Leasing, the IFI loan amounted 2 million EUR, which corresponded to the amount requested by the company. It was considered as being a huge amount for the company, but the IFI has accepted to provide this amount thanks to the guaranty provided by the mother bank (BT Leasing is a subsidiary of the Romanian bank). (JC 3.3; interviews with IFI and beneficiaries)

Desk hypothesis	Evidence
Assembling the financial package is pragmatic as well as quant driven	Confirmed. The financial package has been determined both through feasibility studies (where the reimbursement capacity of the beneficiaries have been analysed) and the IMF concessionality requirement. However, we do not have direct evidences that the level of grant was derived from calculations of the optimal amount of grant.
Target leverage levels should be implicit in grant request	Partially confirmed. The targets are provided in grant request for EFSE[57] and SME FF, and for the Transport project.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
The appropriate blending instrument or mix of instrument has been selected: ▪ Chisinau Public transport project: the investment grant was the most appropriated instrument to meet IMF concessionality requirements and overcome the limited borrowing capacity of the municipality. It should be mentioned that this project was made possible thanks to the Feasibility study funded by an EBRD TA grant (JC 4.2; interviews with IFIs, Municipality and Transport company) ▪ Feasibility study for improvement of Water and Sanitation Systems in Chisinau: the TA grant was the right instruments for this assignment. Based on it, the company developed a Priority Investment Program that Water Company is implementing with EBRD and EIB loans and NIF grant. (JC 4.1; interviews with IFIs, and Water company) ▪ Moldova Road rehabilitation projects: the investment grant was the most appropriated instrument to meet IMF concessionality requirements. It was mentioned by a national partner that a TA component would also have been relevant, to strengthen and improve the general capacity of the State Road Administration. However, a TA which included strengthening SRA's capacities in procurement, financial management, and environmental issues was financed by the WB and completed in 2011. EU has also funded TA to the State Road Administration under MD Road Rehabilitation III (1.2 Million Euros). (JC 4.1-4.2; interviews with IFIs and State Road Administration; Operation Performance Assessment, 2015).

[57] The calculation of/ definition of goals regarding leverage levels is therefore very complex. EFSE does so at fund level in semi-annual meetings with DG NEAR in Brussels. (KfW, June 2016)

- SME FF: the risk capital was used in a situation where there was a clearly identified need for it. The IFI has chosen the SME FF versus other available SMEs credit lines because it was the most appropriated for BT leasing and its intention to expand its activities in the SME segment. The 1st loss cushion was indeed highly appreciated by BT Leasing and contributed to its decision to enter the SMEs leasing segment (cf. EQ7). TA is also available under the SME FF, but it was not used during the period under evaluation, due to bad timing (management changes, and unfavorable market development (low business volume, etc). The partner envisages to request for TA in a near future (the 1st call center in Moldova for leasing operations is being implemented). (JC 4.1-4.3; interviews with IFIs and financial intermediairies)

- EFSE: the EFSE Development facility for consultancy and TA provides support the development of the financial sector. The TA is both demand based, and from IFI recommendation to financial intermediaries. It can take the form of a preparatory TA (support to downscaling, drafting a strategy, developing products, build portfolio, etc.) for institutions that do not have yet the profile to be supported by EFSE. The cost of the TA is shared among the beneficiaries and EFSE, depending on the profile of the beneficiary (max. 30% for MFIs, and 50% for banks). Partners are willing to get access to a risk sharing (such as the SME FF 1st loss cushion) or an insurance mechanism, especially as they operate in agriculture (JC 4.1; interviews with IFIs and financial intermediaries)

For transport and infrastructure projects, the choice of the instrument was made by the IFIs at the design of the project. EU policies toward blending instruments may also determine the final choice (for instance, priority to investment grants and limitation of TA; use interest rate subsidies when projects involve the private sector, etc. (JC 4.1-4.2-4.3; interviews with EUD).

Desk hypothesis	Evidence
TA was partner owned and demand led	Confirmed. The TA was demand based, and a contribution is asked to the beneficiaries, to ensure their commitment. In Moldova, 27 individual, 11 sector and 5 research TA have been provided.
Partner informed and took part in choice of instrument	Partly confirmed. For infrastructure projects, the choice of the instrument was made by the IFIs at the design of the project. However, regarding SMEs projects, at the country level the choice of the instrument was made in accordance with partners' needs. However, in the case of EFSE, an additional support (guarantee mechanism) could also have been relevant in the context of Moldova.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)

Blending projects have contributed to policy reforms in infrastructures and transport sectors:

- Chisinau Public transport project: building upon the blending project, a new strategy for public transport up to 2025 is elaborated. Furthermore, the project came with requirements for further developments of the public transport that are being implemented, such as introducing the electronic ticketing and traffic control system. (JC 5.1; interviews with IFIs, Municipality and Transport company)

- Moldova Road rehabilitation project: at the time of the approval, several transition objectives were set jointly by IFIs and the EU for the project, including the adoption of a Road Sector Strategy and a reform of the road sector financing. Specific conditions were therefore attached to the project, to ensure the implementation of the reforms. As a result, reforms progressed well. They include the approval (in 2008) of the Land Transport Infrastructure Strategy, replaced in 2013 by the Transport and Logistic Strategy for 2013-2022, that is being used as basis for budgeting and decision-making in the road sector; an increase of the financing of the Road Fund to ensure of an appropriate maintenance of the rehabilitated roads (in 2009, it was decided that 80% of the excises collected from fuels will go to the road fund; as a result, the revenue of the fund grew from about MDL240 million in 2009 to more than MDL1030 million in 2012); a restructuration of State owned enterprises responsible for the

maintenance services; and the introduction of performance based contract. (JC 5.1; interviews with State Road Administration, IFIs and EUD; EBRD, Operation Performance Assessment, 2015)

The contribution of blending projects to reforms in the financial and SMEs sectors is limited:

- SME FF: the IFI involves in policy dialogue usually to address specific issues related to a project that would arm its implementation. Blending has no impact on that. In the case of the leasing sector, no policy dialogue has been conducted. (JC 5.2; interviews with IFIs)

- EFSE: the IFI (through the implementing partner) has been pushing for the adoption of a 1st draft law on Non-Bank Financial Institutions (prepared with the support of the World Bank). Given the limited involvement of the government on this policy, the partner has stop its participation to the dialogue. The partner is now focusing on financial education. Jointly with local stakeholders (ministry of finance, ministry of economy, local bank of Moldova, ministry of education, national commission for financial markets), they are working on the national strategy of financial education in Moldova. It is a comprehensive strategy, with objectives and action plans, to reach people from school to adults. In other countries of the region, the IFI (jointly with its implementing partner) are involved in discussions with governments and central banks, to improve market conditions for MSMEs. The fact that EU is involved is helpful. (JC 5.2; interviews with IFIs)

- In addition, following the problems in the banking sector that occurred in Moldova in 2011, a number of investors (including EBRD and KfW) engaged in discussions with the government (notably on ownership transparency). The EUD has been supportive. (JC 5.2; interviews with IFIs)

The TA provided through blending has been a contributory factor in promoting sector reforms:

- Based on the Feasibility study for improvement of Water and Sanitation Systems in Chisinau, several improvements took place in the regulatory framework. A new law on water supply was elaborated, the tariff settings became more independent from political involvement, and the role of the National Agency for Energy Regulation (as independent regulator in water sector) has been increased. (JC 5.1 ; interviews with the Water company)

The voice of the EU is perceived by IFIs as being important to achieve the results regarding policy reforms. From EU perspective, IFIs involvement in policy dialogue is perceived as limited because they do not engage in a dialogue as long as their projects are not impacted by policy issues. (JC 5.1; interviews with IFIs and EUD)

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	Confirmed. Blending projects increase the voice of the EU. However, EU doesn't go through blending in order to use it as an instrument for policy dialogue
Blending and BS together are a more powerful factor of change than either alone	Probable: as a counter-factual question the field work only showed that policies developed with these blending projects.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

The quality of blending projects reviewed was high, and measures to ensure their sustainability have been envisaged:

- Moldova Road rehabilitation project: a feasibility study has been conducted before the project. The technical solution applied are perceived as being appropriate by all the project stakeholders met, and construction works were carried out according to the technical specifications. All procurement and quality assurance procedures applied were in accordance with international procedures stipulated in the financial agreement. (JC 6.1- 6.2; interviews with IFIs and State Road Administration)

- Feasibility study for improvement of Water and Sanitation Systems in Chisinau: the project was determinant for the design of the ongoing water project (EUR 61 million, including a EUR13.4 million NIF grant). The feasibility study covered all the main aspects, including water and wastewater networks, water and waste water treatment plant, sludge disposal, institutional, regulatory, organizational environmental and financial aspects (including reform of tariffs). (JC 6.1; interviews with IFIs and the Water company)

- Chisinau Public transport project: the technical requirements associated to the contract regarding the trolley buses have contributed to improve the quality of the services provided to the population, including in terms of comfort (seats, noise, temperature, greater capacity) and accessibility (for disabled people). It has also contributed to the improvement of the overall public transport framework of the Municipality (new strategy, electronic ticketing, etc.). All procurement procedures, including quality assurance have been done based on IFI procedures. The Municipality and the transport company have developed a permanent collaboration with the manufacture of the trolleybuses in Belarus to assemble them in Chisinau. (JC 6.1-6.2; interviews with IFIs and the Water company)

- Regarding SMEs regional projects, the design is not questioned by financial intermediaries. One partner has however requested clarifications on the risk sharing instrument (SME FF), in terms of eligibility criteria. The type of clients that are eligible for the 1st loss cushion was not clearly stated to the SME FF partner. The financial intermediary also questioned the relevance of covering only 50% of loans at maximum. (JC 6.2; interviews with IFIs and financial intermediaries)

However, the impact of EU on projects design and implementation is quite limited. Actually, due to its limited resources (both technical expertise and time) available for each blending project compared to IFIs (who affect significantly more resources on blending projects, given notably their financial involvement, especially compared to EU), the EUD usually provides only suggestions and advices to improve the project at the margin. Furthermore, IFIs requirements notably in terms of quality standards and environmental concerns are the same those of the EU. There is therefore no specific added-value of blending in this regard. Regarding the implementation, the responsibility is in the hands of the IFIs. (JC 6.5; interviews with EUD and IFIs)

Desk hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages of the project cycle:	Probable. Thanks to blending, EU can beneficiate from the capacities (resources, technical expertise) of the IFIs. Furthermore, TA and feasibility studies also have a positive impact on project quality.
In comparison to what other modalities (and why) does blending (not) deliver: ▪ greater sustainability ▪ greater affordability (to beneficiaries) ▪ better viability/rates of return (to IFIs) ▪ better impacts (on poverty alleviation) ▪ more focus on the needs of vulnerable groups	Probable. Blending can contribute to the affordability of the project for end beneficiaries, as grants reduce the overall cost of the project for end beneficiaries, especially when the loans have to be recovered through tariffs. Regarding the water project derived from the feasibility study for instance, thanks to NIF contribution, the level of tariffs for end beneficiaries will be lower than without blending. In terms of reaching vulnerable groups, the provision of local currency loans to financial intermediaries when they were scare on the market (EFSE was the 1st institution to do so in the country) contributed to respond to the financial needs of the most vulnerable MSMEs. The new trolley buses of the Municipality are now accessible to disabled people.
EUDs are (not) directly involved in all stages of the blending cycle	Confirmed for projects approved before 2013, as at that time the EU was involved by IFIs when projects were already mature. The involvement of the EU has improved recently (new procedures at HQ level since 2013, and increase in available resources in the Delegation), with the discussions between the IFI and the EU to start once the project is envisaged by the IFI. The EUD then gives its approval to the project fiche before it arrives at the HQ. Before that, the Delegation was involved only at the end of the process by IFIs.
IFIs have (in)adequate resources for effective policy dialogue	Confirmed. The resources are there, but their actual involvement in policy dialogue depended on how their projects are impacted by policy issues (stronger involvement in infrastructure/road than in SMEs sector).
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments)	Confirmed. Regarding the 2 regional projects dedicated to financial access for SMEs for instance, IFIs ensure a close interaction with their partners. Reporting is closely monitored, and clear instructions are given to financial intermediaries regarding the data to be reported, especially for EFSE. Reporting requirements include information on the sub-portfolio quarterly (in addition to the yearly financial statement). A template is provided for that (sector, rural/urban, size, etc.). There is also a contractual requirement with the partner regarding the lending rate (min. 80% of the must be placed in sub-loans). This is checked carefully and a partnership can be stop because of that. Regarding the water project designed from the feasibility study funded by the EU grant, disbursement are suspended because tariff reforms (one of the conditionalities attached to the project) have not been implemented yet by the government.
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Partly confirmed. Quality requirements for infrastructure and road projects were the same between IFIs and EU. However, regarding the road project, differences in payment policies between EU and IFIs were mentioned by national entities for the road rehabilitation project.
That potential beneficiaries (i.e. partner governments and	Confirmed. EUD is clearly familiar with blending, and understands its differences and potential benefits in comparison to other financing

institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	modalities. National partners (Road Administration and Municipality) also had a clear appreciation of blending as a financing modality. The beneficiary of an EU grant through the SME FF also had a clear appreciation of blending. Regarding EFSE, the understanding of blending could not be assessed at the level of financial intermediaries, as they do not receive directly an EU grant.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	Confirmed. Regarding EFSE, given the banking sector crisis, an exit strategy was adopted by the IFI's implementing partner in 2010-2011 (from 7 partner banks in 2006, to 2 partners in 2015). Regarding the SME FF, a TA support was foreseen for the partner but then cancelled, as the timing was not relevant anymore (changes in market conditions and in the management).

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)

There are evidences that EU grants were instrumental in improving access to finance for MSMEs:

- The SME FF risk sharing mechanism has increased the willingness of the financial intermediaries to provide services to more risky clients. The partner has indeed mentioned that thanks to the 1st loss cushion, it has changed its risk policy, and decided to serve more risky clients (now 80% of their clients are SMEs (versus 60% in 2012) because their focus has shift from individual to small business). Furthermore, the 1st loss cushion has also contributed to its decision to implement a new leasing program (in transportation), in which the minimum advance (which is a barrier for MSMEs) for the clients would be significantly reduced compared to the current situation in the market (from 40% to 10-20%). (JC 7.1; interviews with IFIs and financial intermediary)

- Since 2011, both the worsening of the macroeconomic and financial sectors (banking), and the banking crisis (late 2014) have impacted EFSE activities in Moldova (cf. EQ6). As there is less investment opportunities, EFSE has been particularly active in TA, through its Development fund. A total of 43 TA projects have been implemented in Moldova from 2006 to 2015, for a total amount of 1.6M EUR (as mentioned under EQ 4, the cost of the TA is shared with the beneficiaries). EFSE has contributed to strengthen the microfinance sector, which is less regulated compared to the banking sector in Moldova. TA has been provided to MFIs in terms of risk assessment, sound corporate governance, etc. At sector level, EFSE has had several attempts to support the credit bureau (set up in 2008 by commercial banks). There have been discussions regarding a dedicated TA to improve credit bureau's work, but they stopped notably due to ongoing discussions on the bureau's ownership. EFSE has also organised a training in German (workshop) for all the credit bureaus where it operates. The workshop has been really appreciated by the participants. One of the current partner financial institution was already involved in the micro segment in 2006, but had limited financial capacities (business planning, micro management, monitoring, etc.). Since 2006, 7 TA tailored projects have been provided by EFSE in MSE lending, management, business planning, financial management, and operational improvements. Thanks to EFSE, the partner has now internal expertise and specialisation in terms of rural finance, agriculture finance, and consumption loans. The partner also have key persons in each sector or specific areas (transfer of knowledge in the company). Another partner financial institution has received 3 senior loans in local currency from EFSE since 2010, for MSE financing. Finally, EFSE has provided medium and long term loans, including in local currency (up to 5 years, for local currency is 4 years). As mentioned in EQ 6, this was determinant for reaching the most vulnerable MSMEs. Discussions as well as the survey with end beneficiaries revealed that they were satisfied with the services provided by financial intermediaries, especially in terms of flexibility in the characteristics of the loans (reimbursement plans for instance). They also valorize the fact that partner FIs show them interest compared to other commercial banks. A study conducted by an EFSE partner FI has revealed

that 75% of their clients would recommend the institution to potential clients. (JC 7.1; interviews with financial intermediaries and MSMEs managers)

There are also evidences that EU grants were to some extent instrumental in improving MSMEs capacity to deal with financial intermediaries:

- EFSE has been active in initiatives to increase financial literacy of school age kids, jointly with the National Bank of Moldova (edition of books about savings, booklets on how to assess the risk of loan in local currency versus foreign currency, etc. – see annexes). In 2008, EFSE had financed a study on financial literacy levels in Moldova. In the framework of the national strategy on financial education currently under construction (EQ 5), a survey on the literacy level has been conducted by the same consultants that had conducted the study for EFSE in 2008. They have confirmed that improvements had occurred (we however don't have access to these studies and their related figures). (JC 7.2; interviews with IFIs and financial intermediaries)
- From the discussions and surveys to end beneficiaries (MSMEs managers) however, it appeared their level of financial literacy is not limited, as they were able to compare offers from different banks (either by being client of other institutions, or by conducting research on internet). In only one case, the choice of the financial institution was made upon recommendation, with no comparison to other existing financial products available on the market. No impact of EFSE on their financial literacy level was mentioned.

Chisinau Public transport project:
N/A
Feasibility study for improvement of Water and Sanitation Systems in Chisinau:
N/A
Moldova Road rehabilitation projects:
N/A

Desk hypothesis	Evidence
FIs have improved their capacities in terms of assessing MSMEs' risk	Confirmed. Through EFSE, the MF as a whole have beneficiated from a training provided to the credit bureau, in charge of collecting data on on-going lending activities of commercial banks and MFIs, in order to avoid multiple lending for the same client. One of the partner financial institution of EFSE has beneficiated from 7 tailored TA projects, including in MSE lending.
FIs have developed a strategy or revised their existing strategies towards the MSME segment (new products, specific trainings, new branches, etc.)	Confirmed. Thanks to the SME FF 1st loss cushion, a leasing company has revised its strategy and decided to work with more risky segments: now 80% of their clients are SMEs (versus 60% in 2012) because their focus has shift from individual to small business. The equipment sector for SMEs represented 10% of the portfolio, now it's 35%. The company has also developed a new product, more accessible to MSMEs than existing products. It is also envisaging to stimulate women entrepreneurship. EFSE has contributed to strengthen the technical capacities of partner MFIs.

TA have contributed to improve financial literacy levels among MSMEs' managers	Partly confirmed. EFSE is involved in financial literacy activities, and improvement in this regard have occurred (we don't have the figures). From the interviews of MSMEs managers, in most cases the financial literacy is not limited, as they were able to compare offers from different banks (either by being client of other institutions, or by conducting research on internet). Furthermore, they have not receive specific technical assistance, except the fliers developed by EFSE and distributed by partner FIs[58].
Take up rates of guarantees and collateral-substitutes products have decreased	Partly confirmed. In the case of the SME FF, the portfolio at risk of the partner FI was limited (not a day of overdue during 3 years, maybe because the size of the business was limited). As a result, only 50% of the 10% loss cushion has been used, for a client involved in meal and honey. After 8 months of loans, he started to have difficulties and now he has declared insolvency. The current PAR30 (2015) of the partner is 4.5%. Regarding EFSE, the PAR 30 of the partners have decreased over the period, but not in a regular way. The MFI partner had an average PAR 30 over the period 2008-2014 of 10.3% (with the highest level reached in 2010 at 15.6%, and the lowest in 2013 at 6.1%). Focusing on its EFSE sub-portfolio, the average PAR 30 over the same period was 2.2% (max. 10.5% in 2010 and min. 0% in 2008, 2009 and 2010). For the second partner FI (bank), the average PAR 30 over the period 2008-2014 was 2.5% (with a max. of 6% in 2013 and min. 0.5% in 2008 and 2009). Regarding its EFSE sub-portfolio, the average over the period 2009-2014 was 0.9% (with a max. of 2.1% in 2013, and a min. of 0.1% in 2014)
Advantages to use one instrument or another in terms of improving FIs capacity to deal with MSMEs	The guarantee mechanism is perceived to have a higher impact on partner FIs strategy toward MSMEs compared to TA. This has been mentioned by a SME FF beneficiary (preference for 1st loss cushion versus TA). Furthermore, an EFSE beneficiary has mentioned that a guarantee mechanism would be relevant, especially as it operates in agriculture (cf. EQ4)
Advantages to use one instrument or another in terms of improving MSMEs capacity to deal with FIs	Only TA (financial education tools) has been used to improve MSMEs capacity to deal with FIs.

[58] The quality in terms of content and pedagogical approach was explicitly appreciated by the interviewees.

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)

Blending projects had visibility requirements. However, the EU visibility is affected by the fact that contracts are signed by IFIs with the government, on behalf of the EU. To overcome the consequences of this, the EUD has sometimes organised alternative events where it could meet directly with the government and increase its visibility on the projects. A specific attention on how events are promoted (EU providing a grant, and IFIs providing loans) also have to be given. (JC 8.3; interviews with the EUD)

Interviews of beneficiaries suggested that the awareness about EU grants in the projects was uneven:

- Chisinau Public transport project: the beneficiaries are aware of the EU contribution to the project. On each trolley buses there are stickers with EU logos (cf. pictures in annex). Besides of this, officials from EUD have participated to project-related events. An EU representative was for instance present at the launch of the project, when the first trolley buses were procured. (JC 8.3; interviews with the Municipality and Transport company)

- Moldova Road rehabilitation project: the national entity in charge of implementing the project is aware about EU contribution. Furthermore, end users are informed about the EU contribution by the billboard on the segment of road that has been built from NIF grant (cf. annex). (JC 8.3; interview with State Road Administration)

- SME FF: the partner FI is aware of the EU grant in the SME FF. It mentions the support of the EU on its website. However, given the nature of this support (risk sharing), end beneficiaries are not fully informed about the type of support provided by the EU grant. (JC 8.3; interviews with IFIs and financial intermediary)

- EFSE: whenever a loan is provided by EFSE, there is a presentation of the fund, with a clear indication of its sources of financing (the EU is mentioned, and its logo appears in the presentation). However, we have observed that the awareness about the EU contribution was limited in one of the partner FI. At regional level, EU is invited to participate to EFSE events, such as its annual meeting. The EUD of the country where the meeting is held is invited to actively participate, for instance by doing the welcome speech. Sometimes, despite the invitation, no one from the EU is present. (JC 8.3; interviews with IFIs and financial beneficiaries).

Regarding transaction costs, blending projects have not contributed to lower them. There are some additional transaction costs related to preparation of the documents for EU, including approval of the EU NIF grant, drafting and negotiation of the legal agreements and then further monitoring and implementation. However, these costs were not perceived as a barrier to the implementation of the project. There is a different transaction cost issue in case of co-financing (when the IFI disburse pro rata) and in case of parallel financing, where the IFI is taking additional responsibility for the implementation of the EU NIF grant as a standalone project (this usually implies financing different assets/activity, for example a separate road section). Parallel financing usually requires more efforts/transaction costs from the IFI but this is still perceived as acceptable. It can also require more efforts from the implementing partners, as it has been the case with the Road rehabilitation project (construction works financed with the NIF were procured and managed as separate activities, and EU and the IFIs had different payment procedures[59]). Blending projects also require efforts from IFIs in terms of reporting. This effort is perceived as being acceptable. From the EU perspective however, the reporting from IFIs is sometimes perceived to be

[59] The situation has since changed. For the next project in the sector, the beneficiary implement it as one project, following the lead IFI procedures.

problematic (notably in terms of quality)[60]. From the financial intermediaries, the reporting effort required by EFSE is perceived to be significantly lower compared to other fund providers (including another IFI operating in the country). (JC 8.2; interviews with IFIs, EUD, State Road Administration, and financial intermediaries)

Finally, regarding the contribution of blending projects to cooperation and coordination between EU, IFIs, and beneficiaries:

- Twice a year, there is the EFSE semi-annual meeting in Brussels, with EU, the lead IFI, and its implementing partner[61]. They discuss the strategy, figures, results, etc. It's difficult to isolate the role of each donor. All the information it's provided to all the donors. The IFI mentioned the difficulty to conciliate the expectations of public donors like EU (focusing on the creation of a social impact) and those of private investors interested by the return of the fund. For this, the fund has to be efficient. It's therefore sometimes difficult to convince the EU that beside support to SMEs there is also the question of mobilising capital (private investors are committed to 3-4 years, whereas public partners are involved for 10 years). This is where the EU has discussions with the IFI, as EU development agenda may change over time. There are investment guidelines, stakeholders meetings, etc. and EU requirements have to be aligned with investment requirements. It's therefore difficult for the EU to have an influence at each step of the implementation. (JC 8.1; interviews with IFI and financial intermediary)
- Regarding KfW, EFSE is a tool to implement the IFI policy towards MSMEs. Indeed, KfW is willing to cover MSMEs. However, the size of the potential partner financial institutions is sometimes too small for the IFI to work directly with them. EFSE in this regard is therefore important for the IFI as it allows to cover micro and small businesses. (JC 8.1; interviews with IFI)
- The transition objectives set for the Road rehabilitation project have been established jointly by IFIs. The policy dialogue has been performed through semi-annual joint missions (IFIs, EU, WB notably) on transport sector, where discussions with the government have taken place. (JC 8.1; interviews with IFIs, EUD; EBRD, Operation Performance Assessment, 2015)

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	Confirmed regarding preparation time. However, the impact of the EU grants on project quality at the design stage is limited (cf. EQ 6)
Management costs were inferior to pure loans	Not confirmed. Blending have increased management costs, for instance through reporting requirements.
Dissemination of knowledge has led to visibility	Partly confirmed. For transportation and infrastructure projects, the visibility of the EU is confirmed at implementing partner levels, and assumed to have reached end beneficiaries, given the EU logo on trolley buses and road section. Regarding EFSE, the awareness about EU involvement in the project is confirmed at the level of one of the partner FIs. For the SME FF, the awareness about the EU grant is confirmed at the partner FI level. Measures at also taken to inform end beneficiaries, but given the nature of the EU support, full information can't be provided to them.

[60] *« KfW welcomes the Commission to discuss the quality of the reports »* (KfW, August 2016)

[61] The cooperation between EFSE, EU and KfW/EIB (EIF) is perceived to have been intensive as compared to many other EU (-blending) projects (KfW, June 2016)

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- Chisinau Public transport project: the 102 trolley buses and maintenance equipment have been delivered on time, at the quality standard required.
  - Impacts on the quality of services and affordability: before the project, the Transport company had 328 electric trolley buses, with 80% of the fleet obsolete. Now, 50% of the fleet is new (102 financed through the project, and additional 80 buses not financed by the project). The new buses are accessible to disabled persons. According to the interviewee of the Transport company, the number of users increased by 15% and the price of the tickets has not been increased (the price is fixed by the municipality; there is a contract between the municipality and the company: if the price set is lower of the cost, the municipality pays the difference). (JC 9.1-9.2-9.3; interviews with IFIs, Transport company and Municipality; EBRD, Operation Performance Assessment, 2015)
  - Impacts on jobs: no jobs created directly by the project, but thanks to the project, the municipality engaged itself to buy (and assemble in Chisinau) 20 new trolley buses per year. 12 permanent jobs have been created for the assembling of the buses in Chisinau (whereas the 102 trolley buses had been assembled in Minsk). Without the new buses, people would have been fired due to the obsolescence of the old trolley buses. Thanks to the new buses, no one was fired and salaries were increased. Now 255 persons are in charge of issuing tickets in trolley buses, and 45 persons control them. With e-ticketing (the implementation is on-going, with support of the lead IFI, for buses and trolley buses), they will merge the controllers, and at the beginning 150 persons will be in charge of controlling electronic tickets. This process will take time (retirements will occur, no firing is foreseen). (JC 9.3 – 9.10; interviews with Transport company and Municipality)
  - Impacts on traffic and environment: there are 3 types of public transport in Chisinau, namely mini-buses (managed by private companies), buses and trolley buses (both managed by the municipality). Before the project, there was 1800 minibuses. This figures has been reduced to 1300 minibuses, which improved the traffic and ecological situation in the city. Following the project, the Municipality is developing a unit in charge of monitoring the public transport. The unit will have a GPS system. Thanks to this, everyone will be able to see on-line the situation in terms of traffic in the municipality. The municipality is also analyzing what to do regarding the buses (creation of a new unit, as for the electronic trolley buses; it may stay as a public company or may be privatized). The municipality is also looking funds to finance projects in terms of improvement of the traffic. (JC 9.3; interviews with Transport company and Municipality)

- Feasibility study for improvement of Water and Sanitation Systems in Chisinau: the main result of the project is the Priority Investment Program that lead to a new investment project with the Water company, financed by EBRD and EIB loans (each of EUR24 million) and a EUR 13.4 million NIF grant. The project (especially through Priority Investment Program) should have positive impacts on environment and energy efficiency, and possibly on health (improved water quality). (JC 9.3 – 9.10; interviews with the EUD and Water company)

- Moldova Road rehabilitation project: 21.19 km of roads were rehabilitated with the NIF grant, on the most important connections in the country, between Chisinau and Balti cities (2 economic centers). The project has enhanced the accessibility of neighbourhood localities to markets (including access to labour market) and socio-administrative facilities. The intensity of the traffic (Annual Average Daily Traffic) has increased from 4352 in 2007 to 7170 in 2015. The project has also contributed to the reduction of the transportation costs and to positive environment impacts (landslide stabilization, less specific air pollution, less fuel consuming, decreased risk of soil pollution, care of green plantations along the roads), and better safety conditions (leading to decreased risk of car and local residents accidents). During the project, temporary jobs have been created (about 88 units), and after its implementation permanent jobs have been created in small markets, shops, bars alongside of the road. An evaluation was conducted in 2014, to have the views of the population living in villages along the

road, regarding the impact of the road rehabilitation for them. Most of them were happy and mentioned a significant improvement of the quality of infrastructures in their village. (JC 9.3 – 9.10; interviews with IFI and the State Road Administration)

- SME FF: 10% of the 2M EUR loan provided by the IFI was made available as a risk sharing mechanism for the partner FI. Only 50% of this amount has been requested as 1st loss cushion, given the low PAR of the partner. Thanks the availability of this guarantee mechanism, the share of SMEs clients in the partner portfolio has increased from 60% (in 2012) to 80% currently (shift from individuals to SMEs), and the equipment sector for SMEs now represents 35% of the portfolio (10% in 2012). The partner FI has created jobs, thanks to the increase of its activities in the country (from 8 employees in 2008 to 18 employees now). Furthermore, given its strategy towards SMEs, made possible by the guarantee mechanism, the company has set the bases for the 1st call center in leasing in Moldova, to reach SMEs (53 000 SMEs in the country, about 25 000 are eligible for finance). (JC 9.8; interviews with financial intermediary)

- EFSE: between 2006 and 2015, EFSE has approved a total amount of 100 million EUR of loans (facilitating a total amount of 149 million EUR of sub-loans), corresponding to 14 368 sub-loans, and has financed a total of 1.6 million EUR of TA (43 projects implemented). The average sub-loan amount of partner FIs over the period 2007-2015 amounted 3473 EUR for the MFI that has beneficiated from 7 TA (to strengthen its financial capacities) and loans from EFSE (with 49% invested in agriculture and 19% in trade) and 4640 EUR for the commercial bank operating on the MSMEs market at the time of the contract with EFSE (now, its internal strategy has changed and it should focus on the upper segment of SMEs, and therefore increase its average sub-loan size; however, the requirements attached to EFSE credit line, i.e. maximum sub-loan size equal to 100 000EUR, have to be respected). As development impact, end beneficiaries have mentioned access to university for their kids, improvement of family revenues, and investment in energy efficiency equipment. Gender is not targeted on regular basis. Through impact studies conducted with the EFSE development facility, indicators such as gender and number of jobs created are measured (no impact study available for Moldova). (JC 9.8-9.9-9.10; interviews with IFI, financial intermediaries, and MSMEs managers)

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	No evidence that the design work was lacking or needed 'a more thorough reflection'
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	Partly confirmed. The project completion was delayed by more than 2 years, notably due to the damage to the exposed regulating layer during winter months of 2012/2013 that had to be fixed. Furthermore, the timing estimate of for project implementation appeared to be optimistic, given that potential contractors, new in the country, needed more time for mobilisation.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	Not confirmed. For the Municipality transport project, jobs have been maintained in the Transport company thanks to the project. Furthermore, the trolley buses are now assembled in Chisinau (job creation for the local population). The road transport rehabilitation beneficiate to all the population (through reduced transport costs, improved access to bigger schools and hospitals, etc.). Regarding EFSE,

	there have been discussions with EU to have more job creations for instance. However, as mentioned under EQ7, EU requirements have to be aligned with investments requirements. Interviews with MSMEs' managers have confirmed the development impact of EFSE. Thanks to the SME FF guarantee mechanism, the partner FI is willing to encourage women entrepreneurship.
Monitoring of results was uneven across projects and IFIs and often insufficient	Not confirmed. Monitoring and progress reports are available for all the projects. In the case of EFSE for instance, specific requirements are given to the beneficiaries in terms of reporting (cf. also EQ6). The quality of IFIs reporting was however questioned by the EUD.

Annexes

Annex A: Persons Met

Name	Title	Contacts
EU Delegation to Moldova		
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Name	Title	Contacts
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Ion Burdila	Financial Director	acccon1bur@mail.ru

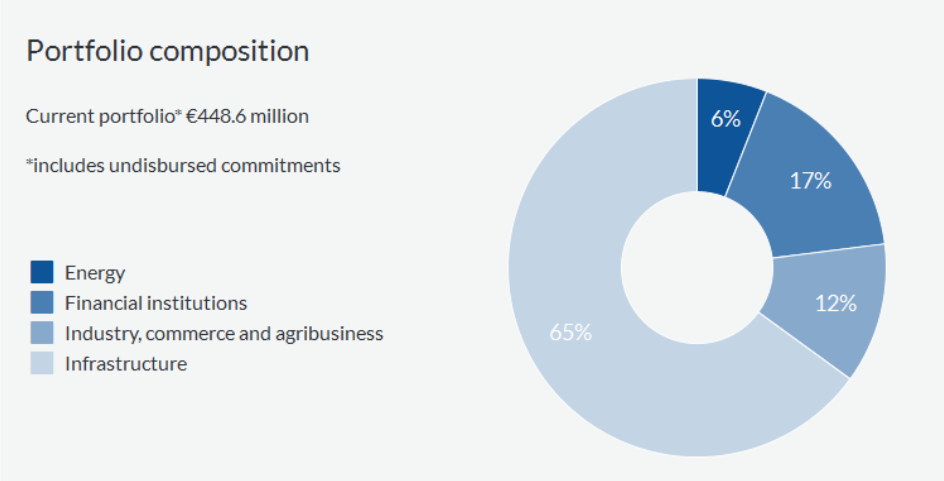
Annex B: Table of EU NIF Blending projects in Moldova (based on the Evaluation inventory file)

National and regional projects	Lending institution	Start date	End date	Amount NIF	Amount Loan
EBRD-05 Regional Energy Efficiency Programme for Corporate sector	EBRD	11/08/2009	10/08/2016	2,140,000	302,000,000
Municipal Project Support Facility (MPSF)	EIB	N/A	30/06/2020	12,300,000	530,000,000
EBRD-02 Technical Assistance to the Chisinau Airport Modernisation Project II	EBRD	28/04/2009	28/10/2014	1,750,000.00	46,250,000.00
Moldova Roads Rehabilitation IV	EBRD	N/A	N/A	13,758,349.50	315,500,000.00
EBRD-06 Feasibility Study for the Improvement of Water and Sanitation Systems in Chisinau	EBRD	18/12/2009	17/08/2013	3,150,000.00	59,000,000.00
MD-01 Capacity assessment and modernisation of the Republican Clinical Hospital (RCH) project in Chisinau	CEB	10/12/2008	10/09/2014	3,100,000.00	18,000,000.00
MD-02 Moldova Road Rehabilitation project	EBRD	10/12/2008	9/02/2015	12,240,000.00	181,200,000.00
Moldovan Railways Restructuring Project	EBRD	N/A	N/A	5,200,000.00	66,500,000.00
MD- 03 Chisinau Public Transport Project	EBRD	26/11/2010	26/05/2012	3,200,000.00	15,450,000.00
Moldovan Residential Energy Efficiency Financing Facility (MoREEFF)	EBRD	15/12/2011	14/12/2018	5,200,000.00	41,800,000.00
MD-04 Water Utilities Development Programme in the Republic of Moldova	EBRD	26/11/2010	26/11/2015	10,200,000.00	31,500,000.00
MD-05 Moldova Road Rehabilitation project III	EBRD	6/12/2011	5/12/2015	16,530,000.00	-
NIF Project: 2nd Phase of the Moldova Sustainable Energy Efficiency Finance Facility (MoSEFF2)	EBRD	6/12/2011	5/06/2019	4,700,000.00	23,300,000.00
"Moldelectrica Power Transmission Network Rehabilitation"	EBRD	10/04/2013	9/10/2017	6,200,000.00	36,600,000.00
Chisinau Water Development Programme	EBRD	N/A	N/A	13,785,000.00	62,120,000.00
NIF Contribution to the project 'Balti Trolleybus'	EBRD	16/08/2013	15/02/2016	1,712,000.00	5,000,000.00

National and regional projects	Lending institution	Start date	End date	Amount NIF	Amount Loan
DCFTA SME Direct Finance Facility	EBRD	1/09/2014	31/08/2024	10,220,000.00	61,500,000.00
KfW-03 Subscription and management on behalf of the European Commission of a participation in the European Neighbourhood Fund	KfW	17/12/2009	17/12/2019	5,100,000	70,000,000
EBRD-13 SME Facility – EBRD/KfW window	EBRD	22/12/2010	22/12/2019	15,300,000	150,000,000

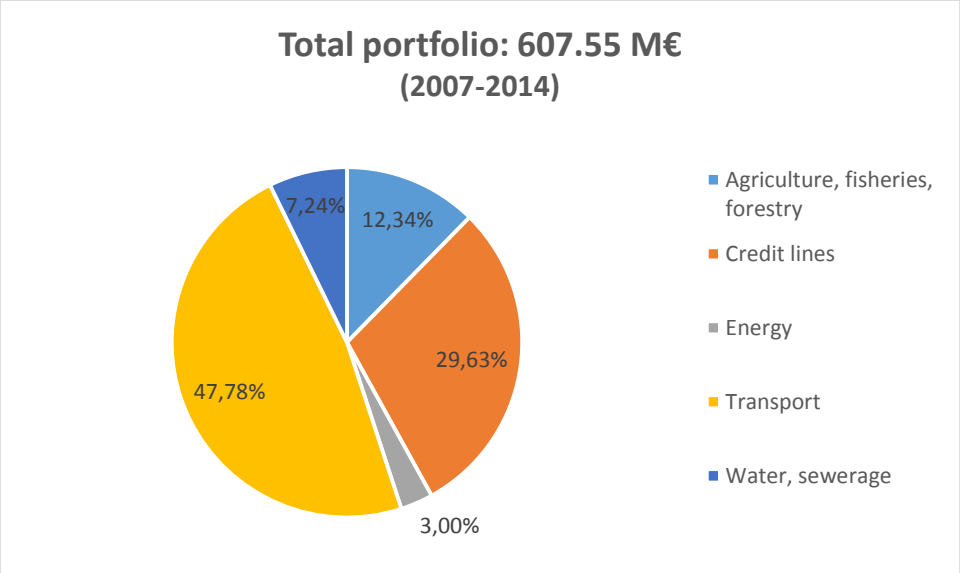
Annex C: Data on EBRD, EIB allocations by sector

Figure 1 – EBRD portfolio in Moldova.



Source: EBRD website, 01 February 2016.

Figure 2 – EIB portfolio in Moldova.



Source: ADE, based on www.eib.org ("Finance contracts signed - Moldova"), 29 January 2016.

Annex D: Documents consulted

- Agreement
- Project fiche/Application form
- Feasibility studies
- Progress reports
- Monitoring reports
- Evaluation reports
- Operation Performance Assessment
- TIMS
- Brochures

Annex E: Survey of final beneficiaries

EFSE – ProCredit clients (3 beneficiaries interviewed)

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Orchards; Turnover MDL4.5 million and #18 jobs (2010), MDL7.5 million and #38 persons (2015). Started more than 10 years ago.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	Only for working capital, cover seasonal needs.
What are the characteristics of the loan requested? (amount? short term/long term?)	The volume of the loan MDL150 - 300 thousands (about EUR8-16 thousands), short term.
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	No difficulties. I always receive the requested amount of loan.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	It has had an impact on the overall business. The received loan from this bank is only a part of the borrowed amount.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Yes, the received loans contributed to the development of the business, along with other financial resources.
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	As business grows and the financial capacity of the company becomes better, this creates better working conditions for employees. We also use equipment with less impact on the environment.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	
Are you aware of the products proposed by other banks?	Yes, I've done a market analysis.
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	First time with ProCredit.
Have you already experienced difficulties in reimbursing your loan(s)?	So far no. I appreciate the promptitude of this bank.
Have you already contracted loans in other banks? If yes, why did you decide to apply to this for that loan?	Yes, I've worked with other banks simultaneously. I now intend to evaluate properties and put them as collaterals for a new credit
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
All is very good. I don't know what can be improved.	

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Orchards, Turnover EUR 0.75 million and #70 permanent, 80 seasonal jobs (2015), business started 4 years ago, every year we double the turnover.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	For investment in orchards and equipment.
What are the characteristics of the loan requested? (amount? short term/long term?)	Long term, about EUR 100 thousand.
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	We've obtained the requested amount. Difficulties were at the beginning due to the fact that land was in more than 150 pieces (difficult to evaluate its value as collateral).
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	Expansion of the surface with orchards, buy of new equipment, use of new technologies, all these led to the growth of the business.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Yes, the jobs grow along with the business, for example 2 years ago we had 30-40 persons, but in 2015 the total number of employees was 150 (permanent and seasonal).
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	The positive impact on the environment is achieved by the use of new technologies and equipment.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	I'm aware about existing products dedicated to SMEs.
Are you aware of the products proposed by other banks?	Those proposed by the 2 other banks I've worked with
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	Yes
Have you already experienced difficulties in reimbursing your loan(s)?	We had some difficulties in the first year, mainly due to the lack of experience and the level of investment realized. Now that the investment are producing returns, it is possible to reimburse easily.
Have you already contracted loans in other banks? If yes, why did you decide to apply to this for that loan?	We've worked with two banks. But now we will work only with ProCredit. It offers the loan in very short period of time, and the interest rate was less than in other banks where we had accounts.
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
They are flexible and prompt in offering the loan. This is really important.	

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Started more than 10 years ago. Construction materials (production and storage). MDL 4 millions, about 20 employees.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	Mostly for working capital.
What are the characteristics of the loan requested? (amount? short term/long term?)	About of MDL200 thousands - MDL300 thousands, short term
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	We've received the requested amount of the loan.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	Improved the productive base, increased outputs, energy savings equipment.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Even as total number of the employees remained the same, due to the development of the business, we have optimized the staff. Four persons work less in the production due to better equipment, and are affected to other activities.
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	The most important impact on the environment is energy savings. The salaries of the personnel also increased.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	
Are you aware of the products proposed by other banks?	
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	We had account in other banks, but loans only from ProCredit. Now we've an account only in ProCredit.
Have you already experienced difficulties in reimbursing your loan(s)?	No.
Have you already contracted loans in other banks? If yes, why did you decide to apply to this for that loan?	No.
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
It is simple to apply, prompt, flexible.	

EFSE – MicroInvest clients (2 beneficiaries interviewed)

Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Animals, sheep for dairy products, family business. Started 3 years ago.

What was the purpose of your loan application? (working capital, investment in new equipment,...)	Investment, construction materials (works)
What are the characteristics of the loan requested? (amount? short term/long term?)	About of MDL70 thousands, 3 years.
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	We've received only the amount that we were able to reimburse according calculations performed by MicroInvest, together with us. We had requested more.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	Improved the productive base.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Mostly family business (further and two sons), but in season we hire several persons to help.
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	Increased family revenue.
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	All information and advices were receive from MicroInvest
Are you aware of the products proposed by other banks?	no
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	Yes.
Have you already experienced difficulties in reimbursing your loan(s)?	No.
Have you already contracted loans in other banks? If yes, why did you decide to apply to this for that loan?	No. We choose MicroInvest upon recommendation
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
We don't know how it is with other banks.	

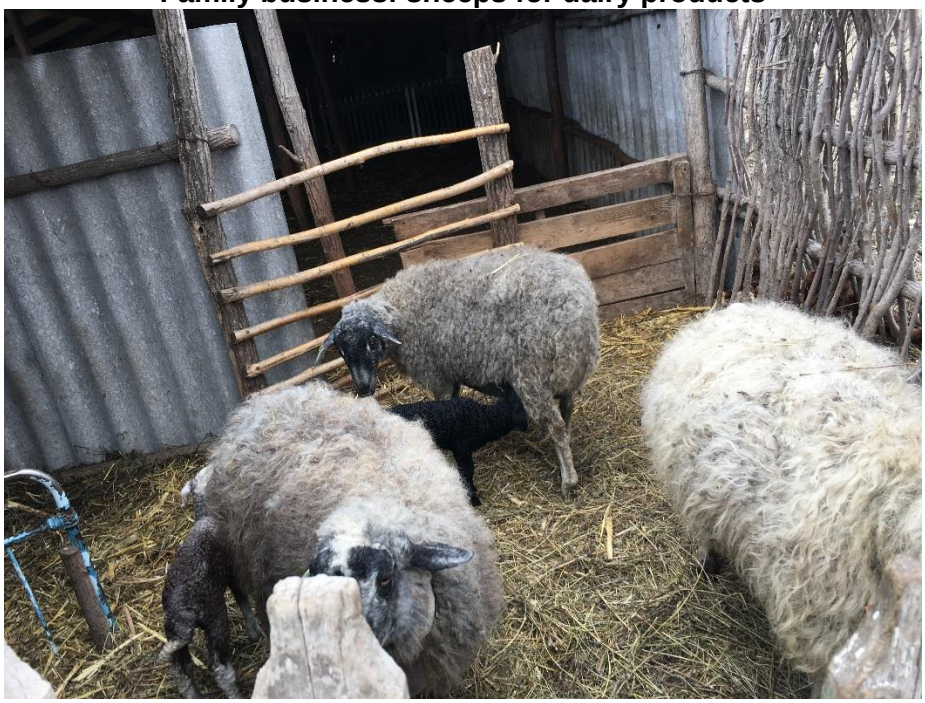
Your activity and your need of financial support :	
Please describe in a few words your activity (sector, turnover, #employees, year of start, etc.)	Animals (cows 18) and agricultural services (with tractor), family business, 10 hectares of land.
What was the purpose of your loan application? (working capital, investment in new equipment,...)	Investment in equipment. The loan was just a portion of the investment, the rest comes from our own savings.
What are the characteristics of the loan requested? (amount? short term/long term?)	First loan MDL 100 thousand for 3 years (closed); second loan MDL 30 thousand.
Have you obtained the requested amount? Have you experienced any difficulties in obtaining the loan?	We've received the requested amount of the loan.
The impacts of the loan:	
What would you consider as being the main benefits of the loan? (increase of the outputs, increase of sales revenue, improvement of the quality of your products, …)	Improved services and increased outputs.
Has the loan contributed to create jobs in your activity or indirectly in the community? If yes, how many jobs (temporary or permanent) were created?	Mostly family (in season we can hire additional 1-2 persons) .
Do you observe any other social benefits/wider development results thanks to the loan received (better access to health services, to school, lower negative environmental impact of your activity, etc.)?	It has helped to improve the business. For the future we foresee to develop a farm outside the family facilities. Thanks to the revenues, we can finance the university studies of our children
Your level of financial awareness and your relationship with the bank:	
Do you consider yourself as well-informed about the existing products dedicated to MSMEs in the bank?	We informed ourselves from internet
Are you aware of the products proposed by other banks?	Yes.
Is it your first loan with the bank? If not, how many times have your already applied for a loan?	Second (both from MicroInvest)
Have you already experienced difficulties in reimbursing your loan(s)?	No, so far we've not experienced difficulties with reimbursing.
Have you already contracted loans in other banks? If yes, why did you decide to apply to this for that loan?	No.
In your view, what should be improved by the bank in order to increase the attractivity of the loans provided to MSMEs? (Higher flexibility of the reimbursements? longer terms? Simplified procedures? etc.)	
Easy access, and received practically in 2 days.	

Annex F: Pictures

Chisinau Public transport project : Electric trolley buses – EU visibility

The European Fund for South East Europe (EFSE): end beneficiaries

Family business: sheeps for dairy products



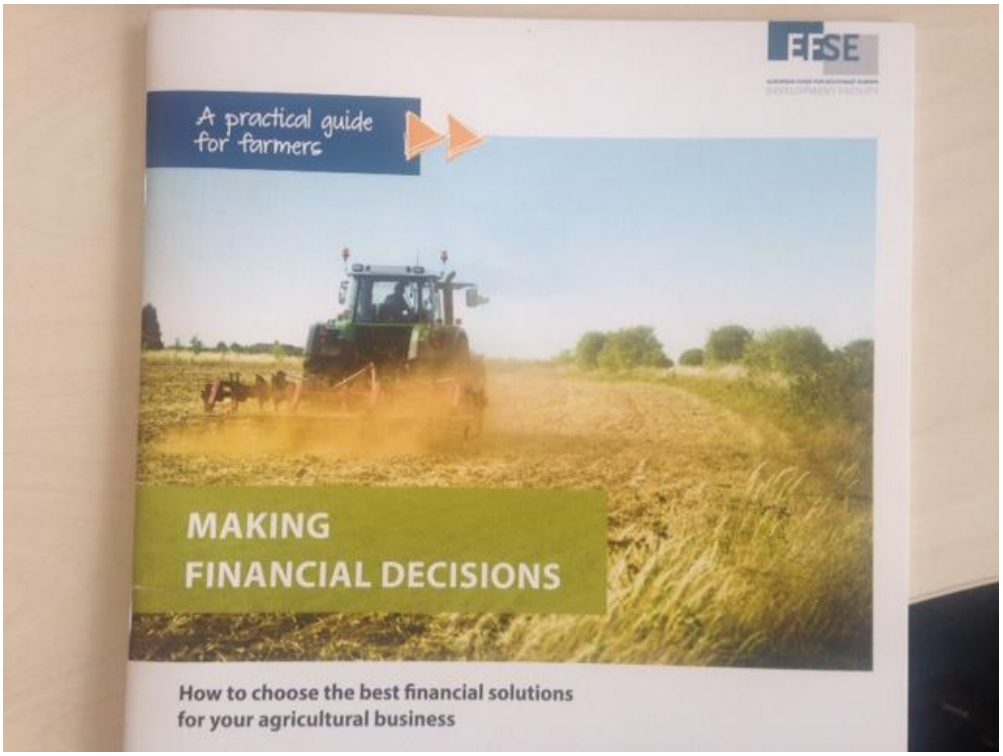
Family business: Animals (cows) and agricultural services (with tractor)

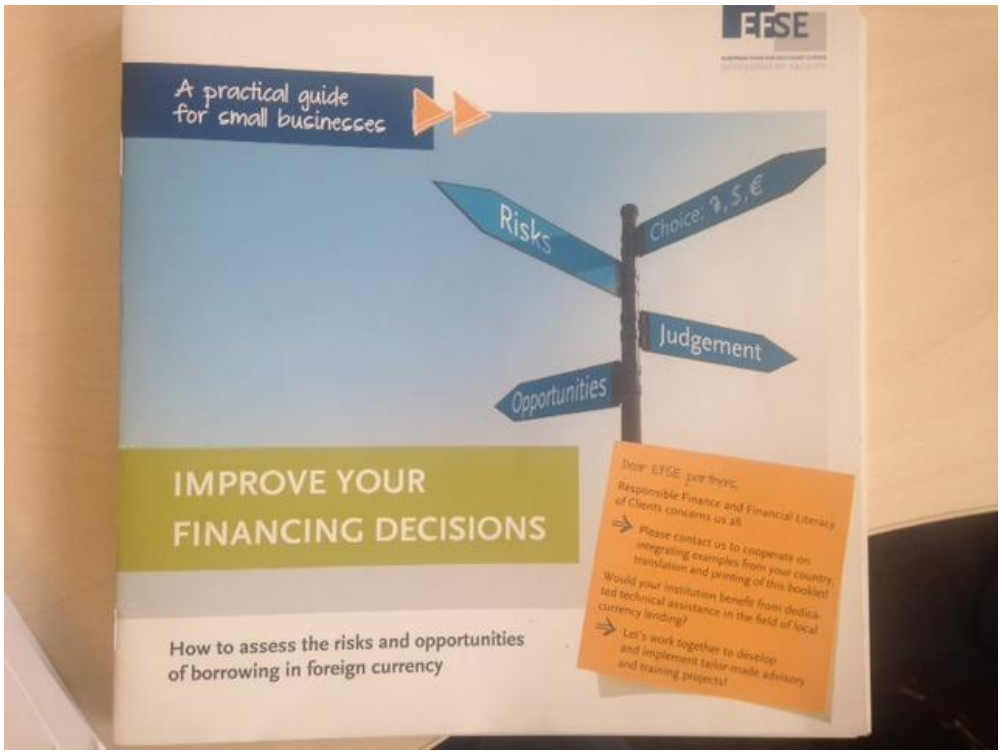
(Above, equipment financed with the credit)

Business: Orchards

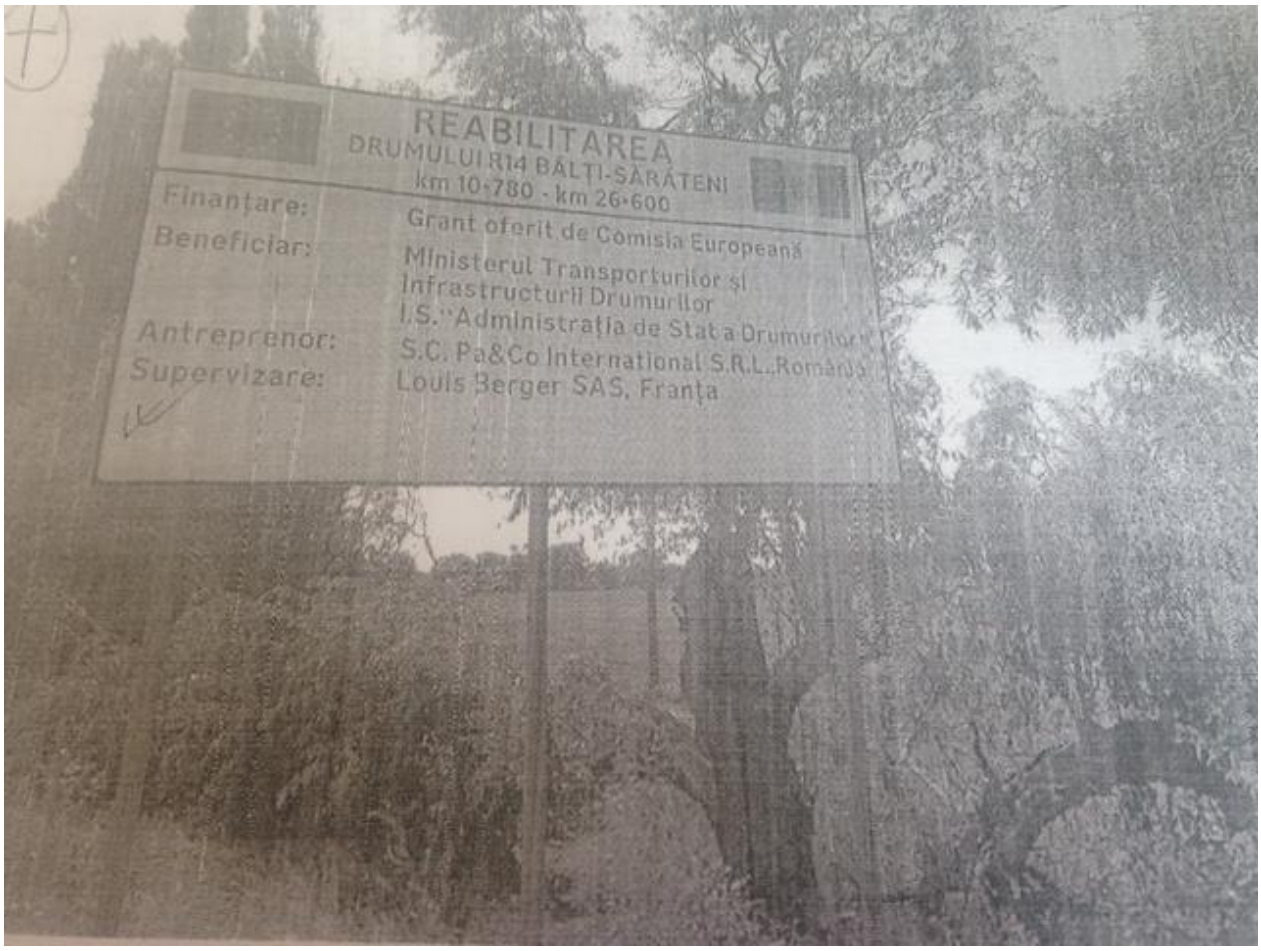
(Below, equipment financed with the credit)

EFSE – Financial literacy support





Road rehabilitation project – EU visibility



(Picture provided by the State Road Administration)

Case study note – Morocco

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Abbreviations

AA	Association Agreement
ADEREE	Agence Nationale pour le Développement des Energies Renouvelables et de l'Efficacité Energétique (National Agency for the Development of Renewable Energy and Energy Efficiency)
AFD	French Development Agency
AfDB	African Development Bank
BCP	Banque Centrale Populaire - Maroc
BMCE	Banque Marocaine du Commerce Extérieur
BS	Budget Support
BTC	Belgian Technical Cooperation
CAM	Crédit Agricole du Maroc
CTF	Clean Technology Fund
DG DEVCO	European Commission Directorate General for Development and Cooperation
DG NEAR	European Commission Directorate General for Neighbourhood and Enlargement Negotiations
DFIs	Development Finance Institutions
EE	Energy efficiency
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
EQ	Evaluation Question
EBRD	European Bank for Reconstruction and Development
EU	European Union
EUD	European Union Delegation
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
IFC	International Finance Corporation
IFI	International Finance Institution
IMF	International Monetary Fund
JC	Judgement Criteria
QA	Quality Assurance
KfW	Kreditanstalt für Wiederaufbau
MASEN	Moroccan Agency for Solar Energy
MorSEFF	SEFF in Morocco
NIF	Neighbourhood Investment Facility
ONEE	Office National de l'Electricité et de l'Eau Potable (National Office for Electricity and Drinking Water)
PFIs	Participating Financial Institutions
PNA	Programme National d'Assainissement (National Sanitation Programme)
RE	Renewable energy
SEFF	Sustainable Energy Finance Facility
SEMED	Southern and Eastern Mediterranean region
SSF	Single Support Framework
TA	Technical Assistance
TOR	Terms of Reference
WB	World Bank
PPF	SEMED Project Preparation Framework

1 Introduction and context

1.1 Development cooperation between Morocco and the EU

The EU and Morocco enjoy a solid and dynamic partnership that reinforces itself continuously since the entry into force of the EU-Morocco Association Agreement in 2000. The Association Agreement constitutes the legal framework for EU-Morocco relations. It foresees the gradual implementation of a free trade agreement as well as various cooperation areas in the political, economic, social, scientific and cultural fields. General EU cooperation objectives with Morocco are established within the framework of the Euro Mediterranean Partnership (launched in 1995) and of the European Neighbourhood Policy (ENP) (launched in 2003). The EU granted Morocco 'advanced status' in 2008, allowing for greater trade opportunities, a deeper political dialogue and cooperation on foreign policy and security matters. The Action Plan for the implementation of the advanced status (2013-2017) gives concrete orientations for EU-Morocco cooperation. With the annulment in December 2015 by the European Court of Justice of a trade agreement between Morocco and the European Union, which includes the territory of Western Sahara, Morocco suspended its relations with the EU. Relations officially resumed in March 2016.

Within the framework of the ENP, a permanent dialogue takes place between the EU and Morocco at three levels: around ten technical committees gathering representatives of the Moroccan administration and of the EU regularly meet; the Association Committee - which meets once a year- takes stock of the sectoral dialogue and of the reforms in the various sectors; and the Association Council also meets yearly for political exchange on the EU-Morocco partnership and on strategic issues of common interest.

The priority areas of the Country Strategy for the period 2007-2013 focused on five cooperation areas: the development of social public policies, economic modernization, institutional support, good governance and human rights, and protection of the environment. These priority areas result from the implementation of the Association Agreement and of the Action Plan. The EU mobilised Euro 1.431,1 million during this period, placing Morocco as one of the main beneficiaries of EU assistance in this region.

The Single Support Framework for the period 2014-2017 focuses on three priority sectors: access to equitable basic social services; support to democratic governance, the rule of law and mobility; employment, and inclusive and sustainable growth. It also envisages complementary support for capacity strengthening and for the civil society. The indicative allocation is comprised between Euro 728 and 890 million.

1.2 Key country context elements

Morocco's political landscape has been relatively stable over the past decades.

Morocco has made important strides in maintaining macroeconomic stability in a difficult environment. But more efforts are needed to reduce external and fiscal

vulnerabilities and achieve higher and more inclusive growth[62]. Structurally, the Moroccan economy remains oriented toward non-tradable activities and a poorly productive agriculture. Moreover, with a strong trade exposure to the European Union (EU), Morocco has been adversely affected by the sovereign debt crises in Spain, Italy, and Portugal, and the subsequent slowdown of economic growth in Europe more generally. Current account deficits have been fueled with the pursuit of expansionary fiscal policies. The financing of fiscal deficits tightened banking system liquidity, which however improved in 2014.

Poverty has been reduced in Morocco since 2004 but inequality and vulnerability remain important challenges. Prudent economic management produced average growth rates of around 5 percent during 2001-2011 and reduced poverty. Yet this growth rate has been insufficient to reduce unemployment. Morocco's Gini coefficient of 0.41 reflects stubbornly high levels of inequality. Poverty rates show disparities across regions. They are highest in rural areas, with 10 % of Morocco's 13.4 million rural residents living below the poverty line in 2011[63].

1.3 Methodology and projects selected

Morocco was selected for a field mission because there are blending projects that are close to completion with some practical achievements. Blending was used in Morocco to finance 20 projects during the period 2008-2014 involving grants of more than Euro 208 million. These projects cover education, energy (electricity), the financial sector, transport (roads and tramway), and water and sanitation. Morocco also provides an example for the wider evaluation of how blending projects operate and contribute in Mediterranean countries.

The country mission started with a review of the entire desk based information and the generation of a list of relevant stakeholders. Almost without exception it was possible to meet all the stakeholders identified (see Annex A). EU delegation officials, officials from the AFD, EIB, EBRD, KfW and national and local partner officials working on the same operation were interviewed and where possible more than one national partner was involved or participated in the interviews (see Annex B). A structured list of questions was supplemented by the list of hypothesis for each evaluation question and the list of missing information identified during the desk study. The survey to final beneficiary enterprises from the MorSEFF is presented in Annex C. A field visit was made to the relevant sites for the three main projects where there were activities being implemented (see Annex D).

The mission mostly focused on three projects financed through the NIF in Morocco, which are part of the desk sample:

- The 'National Sanitation Programme – Phase I' (PNA-ONEE) (2010-2019) (lead IFI: AFD): a Euro 176 million project financed by the Moroccan State and through loans from the AFD (€20m), EIB (€20m) and KfW (€38m) to improve the collection and treatment rates of small and medium cities. The NIF contribution of Euro 10 million complements the financing of the IFIs on the two components of the programme:

62 Sources: IMF, 2014 Article IV Consultation, 2015 ; and World Bank, Country Assistance Strategy for the period 2014-2017, 2014.

63 Source : World Bank, Country Assistance Strategy for the period 2014-2017, 2014.

investments in infrastructure, and accompanying measures, including technical assistance. It consists in an investment grant combined with TA provided to the national office for water and energy (ONEE).

- The Ouarzazate Solar Plant – Phase I (2011-2015) (Lead IFI: EIB). A project of Euro 645 million financed through a range of donors to build a renewable energy production facility, which aims to reduce both Morocco dependence on imported fossil fuels and their negative impacts on the natural environment. The project has three components: i) works and equipments financed through loans from the EIB, AFD, KfW, AfDB, CTF; ii) feed in tariff financed by the World Bank; and iii) technical assistance provided by AFD. The NIF contribution of Euro 30 million is an investment grant to finance the construction of the solar plant named Noor I (component 1 of the project).
- The 'SEMED Regional Sustainable Energy Finance Facility' (2013-2020) (Lead IFI: EBRD): a EUR 130.7 million project designed to provide credit lines to Participating Financial Institutions (PFIs) in Morocco and Jordan for on-lending to private sector sub-borrowers in these countries in support of energy efficiency and renewable energy projects. Development Finance Institutions (DFIs) dedicated credit lines of at least EUR 110 million, including a EUR 80 million credit targeted for Morocco. The EU NIF contribution of EUR 16.5 million is to be used to provide investment incentives to sub-borrowers and financial incentives to PFIs. It does not cover Technical Assistance. EBRD technical cooperation is financed through the NIF under the SEMED Project Preparation Framework (PPF) for Euro 3 million. SEMED SEFF operates in Morocco under the name MorSEFF.

2 Conclusions

2.1 Strategic relevance

The relatively large public and external financing needs of the country have put pressure on the medium-term sustainability of the Moroccan public debt. The public debt has been on the rise in recent years from 47% of GDP in 2009 to an estimated 66.6% of GDP in 2014. So far it remains sustainable according to the IMF and below the benchmark of 70 percent of GDP for emerging markets. But the financing needs of the country have been a source of vulnerability. Blending has a strategic role in these circumstances, allowing the country to continue a prudent debt management regime whilst not delaying unduly the development of important economic and social infrastructure.

Blending has been used to lift project financing constraints for projects aiming to address special challenges and having a high potential of environmental impact. This provides a basis for justifying the use of a grant. Two situations should be distinguished. Blending has been used to finance projects with a proven economic return as well as aiming to generate positive environmental externalities but with an insufficient financial return (PNA-ONEE and Noor I). Blending has also been used to develop the market segment of renewable energy, which was until then relatively unstructured and not attractive in Morocco.

The NIF grant was key for the examined blending projects to materialise[64]. Without the NIF grant, IFIs and beneficiaries met were of the opinion that both the PNA-ONEE and the Noor I projects would have materialised but would have been either i) different in scope and content with less centres covered and less technical assistance provided for the PNA-ONEE, or ii) more expensive for Noor I. In the case of Noor I, equity financing could only be financed through a grant, and MASEN could not have had access to a grant of this size (€30 million) through other sources. The MorSEFF would not have materialised without the NIF grant because the latter represented a key commercial incentive for the participatory bank to move on with the project.

Blending had a catalytic effect in two cases out of the three cases examined. For the PNA-ONEE, the NIF grant was key to attract the financing of several EU IFIs (AFD, EIB, KfW) to fund the same programme. Besides the PNA is financed up to 50% by the Moroccan State. For MorSEFF, the project was decisive to pool the funds of the EU IFIs and of the largest Moroccan banks to promote private sector investments in sustainable energy. The financing of the central thermal power was attractive to a range of bilateral and multilateral donors due to the singularity of the programme (model character, size, innovative character, etc.). IFIs and beneficiaries met indicated that the NIF grant was decisive in reducing the production costs of electricity but not specifically in attracting funding to finance the plant.

Blending projects have been fully aligned with national policies and strategies that they often directly supported. Noor I contributes to the financing of the first part of the Moroccan Solar Plan launched in 2009 which is the cornerstone of the country's renewable energy strategy. The PNA-ONEE directly supports the implementation of the Moroccan National Sanitation Programme (PNA) launched in 2006. MorSEFF is in line with the Moroccan laws and code in the field of renewable energy and energy efficiency.

Synergies at EU portfolio level could be observed in the sanitation area where the EU intervened through the NIF PNA-ONEE, a budget support operation, an institutional support project (PAI1) and a twinning project. The NIF enabled to support the operator (ONEE) while higher-level policy dialogue and contacts with the inter-ministerial committee of the PNA took place within the framework of BS. With BS being finalised since 2013, the ongoing design of the NIF PNA-ONEE phase II foresees an institutional component to ensure the continuity of the discussions launched with BS. Moreover, the NIF PNA-ONEE Phase I and the PAI1 complemented each other in financing various centres of the PNA.

Recent EU guidance on NIF leads to potential missed opportunities -in terms of projects to be financed- between the EU and the EIB. Following the 2014 report of the Court of Auditors, the EU requested the NIF to be used only in EU focal sectors in the future. This decision occurred when the Single Support Framework (SSF) for the period 2014-2017 for Morocco was being finalised. This strategy had been prepared with the assumption that the EU would intervene through blending in EU non-focal areas. This new EU requirement therefore constrains the intended EU scope of action -in terms of sectors covered- together with the EIB. On the EIB side, being able to request NIF support only in

[64] See EQ1 for details

EU focal sectors which usually do not involve hard funding (e.g. justice) and within which the EIB is usually not active rather constrains the scope of action of the EIB because the NIF is the only way for the EIB to access concessional funding. The EIB therefore finds itself in a relatively less competitive position than other EU DFIs (e.g. AFD and KfW) that access concessionality via their respective Governments. Difficulties have been met beyond Morocco in a number of EUDs that counted on blending to intervene in EU non-focal areas. The EU headquarters progressively show a relative flexibility in practice and accept some blending operations in non-EU focal areas.

At EU level, there is a structural incoherence between DG DEVCO/EU IFIs and DG Trade about the local preference clause used for procurement at project level. This clause, used for various blending projects implemented in Morocco (e.g. Noor III, Wind programme, etc.). For Noor III, this clause was required by MASEN to favour local development. It is in line with the lead IFI's guide to procurement and as such was also accepted by DG DEVCO/EUD. However, it disturbs DG Trade that sees it as a market barrier. For Noor III, MASEN made concessions and accepted to make this clause voluntary instead (the clause is therefore not used to score enterprises during the procurement process). In the near future, an EU-Morocco agreement has to be found on this clause for future EIB lending to materialise in the environmental area as well as for the EU to provide future grant support to Noor.

2.2 Added value of blending

Blending provided instruments that were i) key to promote innovation and knowledge building in renewable energy, ii) decisive for projects to materialize, and iii) crucial to guarantee the proper implementation of the projects.

- Noor I enabled the introduction of innovative practices (Concentrated Solar Power technology). The investment grant provided to Noor I enabled a reduction by 30% of the electricity production costs resulting from the solar technology. Besides, the NIF grant partly used to finance MASEN's minority equity participation in the SPC was key for MASEN to progressively gain experience in the renewable energy area. Indeed, MASEN, as minority shareholder, received information related to cash flows, took part in all technical decisions and had a right to vote and object.
- In the case of the MorSEFF, the payment and investment incentives financed through the NIF have been key for the BMCE to become more engaged in the market segment of renewable energy. The 2% incentive payments to PFIs encouraged them to actively engage in developing this new business segment, by covering part of the initial investment costs for entering into a new business activity.
- Blending projects enabled the provision of quality TA appreciated by the partners guaranteeing good project execution. For the PNA-ONEE, TA was provided for programme oversight, to cover more punctual needs as well as to finance strategic studies. For the MorSEFF, technical cooperation supported BMCE in the assessment of the technical quality of energy efficiency and renewable energy investment projects and enabled BMCE to structure its marketing offer in line with the needs of the market.

Blending led to higher project quality. The projects relied on solid feasibility studies. Blending enabled an upgrading of the projects in promoting adherence to EU standards (MorSEFF, PNA-ONEE) as well as international standards (Noor I). The presence of the

EU in the projects through its grants gave the projects a EU benchmark that was crucial for project quality. The projects applied strong environmental and social due diligence. Continuous rigorous monitoring has taken place during project implementation. Plans for operation and maintenance of the investments were also envisaged.

Blending projects did not directly tackle issues related to policy reforms but accompanied the implementation of the reforms initiated by the GoM in the renewable energy and sanitation fields through TA and hard construction. This is especially the case for Noor I and the PNA-ONEE that respectively directly supported the implementation of the Moroccan Solar Plan and of the National Sanitation Programme (PNA).

Blending contributed to enhance the development of the market segment of sustainable energy, by addressing barriers to sustainable energy investments in the industrial sector. The NIF grant of the MorSEFF provided incentive payments that encouraged BMCE to actively engage in developing this new business segment while the investment incentives paid to beneficiary enterprises encouraged them to prioritize energy investments. Funds have been on-lent at commercial rates so as to avoid introducing pricing distortions on the wider loan market. So far, one credit line has been extended to one PFI and two additional ones should benefit in the near future.

In some cases, blending enabled effective cooperation and cooperation during the design and implementation of the projects and led to reduced transaction costs. This was noted for the PNA-ONEE only where this joint AFD-EIB-KfW-EU operation significantly fostered coordination and harmonisation between the four donors. This resulted in substantial simplification and time gains for the ONEE compared with the previous period where the donors intervened on their own in the sanitation area. There is also good cooperation with the TA of the BTC that finances TA for sanitation in other cities covered by the PNA. Other cases examined show on the contrary high transaction costs for both the IFIs and the beneficiaries (time to set-up the project, no streamlining of procedures between IFIs, bilateral relations with IFIs during project implementation).

Recent changes on the preparation of NIF projects following the creation of DG NEAR early 2015 have increased transaction costs for the EU Delegation and the IFIs. Following the creation of DG NEAR, the responsibilities for the NIF became relatively dispersed within this DG and the division of labour between the EUD and the headquarters related to the preparation of NIF projects became less clear. This has complicated the EUD work for the identification phase of the projects (e.g. slowness of the HQ response on EUD requests). IFIs were also of the opinion that the increased administrative complexity of NIF project preparation increased transaction costs for them. Besides, the lead for the preparation of the projects lies within the contracts and finance section of DG NEAR that tends to be less risk-oriented than the NIF Secretariat previously in charge.

EU visibility was maintained through blending though there is room for improvement. Blending enabled a joint European approach. Overall visibility requirements have been respected and it is well-known at national and local levels that the EU contributes

to the financing of blending projects. However EU visibility has suffered from the absence of a dedicated communication strategy at EU level.

2.3 Results

Blending projects rather aimed to indirectly contribute to poverty reduction. Out of the examined projects, the PNA-ONEE is the project the most directly linked to poverty-related issues in enabling the provision of sanitation services for the population of middle-sized urban centres. Rural centres, which are not as yet covered, should be targeted in the second phase of the programme, hereby following the sequence adopted by the Government. Noor I, which is a large infrastructure project, is expected to have -beyond positive environmental effects- a trickle-down effect on the socio-economic development of the Ouarzazate region. It is also interesting to note that MASEN adopted an approach sensitive to the region's livelihood context to meet broader human development objectives. MorSEFF targets fairly large enterprises already demonstrating a good financial standing which limits its poverty reduction effect.

Physical results have been obtained for the three projects examined. The solar plant (Noor I) has been built over a two-year period (2013-2015) as planned; construction works are of good quality. The plant is running at full capacity since February 2016 with a production capacity of 160MW/hour as planned. It operates during approximately 12 hours per day and has a storage capacity of 3 hours to provide energy during peak periods. For the PNA-ONEE, while delays were encountered, the rehabilitation and extension of sanitation networks and the set-up of wastewater treatment plants are finalised 4 centres and ongoing in 21 centres. Construction works observed during the site visits are of good quality. The wastewater treatment plants are in operation in 3 centres. The MorSEFF also encountered delays: so far, one credit line for BMCE had been drawn, and discussions were ongoing with CAM and BCP. The credit line for BMCE has been fully engaged in one year (April 2015-April 2016). It concerns just above 50 projects, mostly in the industry sector and dealing with energy efficiency.

The three projects have a clear potential of environmental impact in the future. It is expected that the 500 MW Ouarzazate Program (Noor I, II, III[65]) will avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) by producing renewable electricity. PNA-ONEE contributes to improve waste water treatment throughout the country. MorSEFF promotes energy efficiency and renewable energy investments that shall also avoid greenhouse gas emissions (the target of 150,000 ton CO2/annum was set for the Facility).

The three projects have the potential to lead to wider socio-economic results.

- For Noor I, economic effects are observed locally and in Morocco in terms of business generation around renewable energy. Social effects are expected with MASEN having invested more than €5m in 38 local development projects during the period 2010-2015. Larger effects related to the reduction of Moroccan dependence on imported fossil fuels are expected in the medium term (by 2020) once all the solar power generation plants envisaged by the Moroccan Solar Plan will be in operation.

[65] The works for the full complex of Ouarzazate are expected to be completed during the second semester of 2017.

- The PNA-ONEE, which is ongoing, will lead to an overall improvement of access to sanitation services for the population throughout the country. In the three centres in exploitation, the rate of connection to the sanitation system improved from 24% to 95% in Ben Taieb, from 0% to 98% in Boudnib and from 75% to 98% in Tan-Tan. End 2015, the expected total population by 2020 of the centres benefiting from the NIF grant was 677,000 people, namely more than the objective initially set (570,000 people).
- MorSEFF: the project remains at a rather micro level with around 50 enterprises having benefited from the credit line extended to BMCE but has potential on the economic front since it enables benefiting enterprises to optimise their productivity (through the renewal of equipment) and to reduce their production costs (energy bill). Moreover, additional enterprises will benefit from the credit lines to be extended to two other PFIs.

The financial sustainability of the supported activities remains a key challenge for the PNA-ONEE. The sustainability of sanitation is regularly discussed in the AFD aides-mémoires with the activity being structurally in deficit. Tariff increases have been confirmed for the period 2014-2017 but they remain modest and insufficient to cover operation costs. With rural centres to be targeted in the future within the framework of the Rural National Sanitation Programme, the issue around the financial viability of the activity will increase.

Financial viability has been duly reflected upon for Noor I. It is ensured during 25 years by the contractual commitment from the GoM to cover the gap between the solar electricity price offered by the SPC to MASEN and the price at which ONEE buys it from MASEN. After the 25-year period, the plant will be retroceded to MASEN in good working condition and should continue being operated. While there is limited experience with this technology, the oldest CSP power plants implanted in the USA have been operating for 35 years. Operating and maintenance costs of CSP power plants are relatively low. Besides, project costs of solar electricity are known (price stability is hence guaranteed) while the costs of the alternatives to CSP (fuel and gas) are unknown and subject to fluctuations in the future.

3 Findings across the evaluation questions (EQs)

3.1 EQ 1 Strategic relevance

Main findings in bullet points (Judgement Criteria (JC) & source of information in brackets)

- Blending has been used to lift project financing constraints for projects aiming to address special challenges and demonstrating a high potential of environmental impact. This justifies the use of a grant (JC1.3, interviews with IFIs, EUD, and national counterparts, project documents). Two cases should be distinguished at the level of our sample of projects:
  - Blending has been used to finance projects with a proven economic return as well as aiming to generate positive environmental externalities but with an insufficient financial return[66]:
    - PNA-ONEE: the support provided to the ONEE contributed to the financing of sanitation which is a structurally loss-making activity (with significant operating costs and tariffs below full-cost recovery) that requires grant support
    - Noor I: the project supported the development of the solar industry in Morocco. It reduced the production cost of electricity produced by a Concentrated Solar thermal Power (CSP) plant (from 0.32 USD/KWh to 0.23 USD/KWh), which is significantly higher compared to the production costs of conventional power plants.
  - Blending has been used to develop the market segment of renewable energy, which was until then relatively unstructured and not attractive in Morocco. This segment also has expected positive environmental effects.
    - MorSEFF: the project promoted the emergence of the renewable energy market in encouraging private investments in renewable energy and energy efficiency.
- The NIF grant was key for the projects to materialise (interviews, project documents):
  - PNA-ONEE: the grant was key to cover a more significant number of centres as well as to provide sufficient technical assistance. The IFIs and beneficiaries met were of the opinion that without the NIF grant the project would have materialised but would have been different in scope/quality:
    - with less resources, the ONEE would probably have financed less centres. It is interesting to note that at the time of this mission the ONEE was envisaging to finance 9 additional centres from the PNA with a top-up of funds from KfW on this project currently under negotiation
    - with less resources, the ONEE would probably have deployed less TA to supervise construction works and would have been less encouraged to access punctual quality TA on strategic matters (e.g. management of sewage sludge)
  - Noor I: the grant was key to contribute to decrease the production cost of solar electricity and to structure the project around a Public Private Partnership. The grant was used to finance MASEN's minority equity participation in the SPC (€17m) and to reduce the debt of the SPC (€13m). Equity financing could only be financed through a grant. Besides, MASEN indicated that a grant of this size (€30 million) would not have been available through other sources. IFIs and beneficiaries met were of the opinion that without the NIF grant the project would have materialised but would have been more expensive for MASEN and end-users. Besides, one should also note that CTF made available US$197m financing with heavily concessional terms.

[66] The ERR and FRR figures were not available at design stage (preparation of the project fiche). For Noor I, it was envisaged that the corresponding long-term Power Purchase Agreement includes a tariff that would make the project financially viable. For the PNA-ONEE, the financial rate of return is negative for the ONEE (source : Project fiche).

- MorSEFF: the grant -used to provide financial incentives for the participatory banks and investments incentives for sub-borrowers- represented a key commercial element for the participatory bank to move on with the project. Without the incentives, the participatory bank considered the product too expensive. This is for this reason that BMCE representatives noted that the project would not have materialised without the NIF grant.

- Efforts were devoted to optimise the business model adopted for Noor I. The choice of the business model resulted from analyses conducted to select the most appropriate financial structure to implement solar projects in Morocco. Considering that the project aimed to develop an innovative technology with limited return on experience at the time, it was decided to opt for a public-private partnership with a minority participation of MASEN in the SPC, hereby enabling to correctly mitigate risks between public and private operators. The business model is expensive; the economic justification of the high cost of the project lies in its contribution to the expansion of an emerging technology with reasonable prospects of becoming competitive with traditional technologies (by 2030). Financial sustainability therefore lies on the assumption that the solar electricity price will significantly decrease in the medium term. Besides, Noor I is less expensive than comparable projects implemented in Spain, owing to better irradiation in Morocco as well as because the projects benefited from concessional loans and an EU subvention.

Desk hypothesis	Evidence
Projects posing specific challenges requiring blending will continue to grow	This is confirmed. There are major reform projects in Morocco that could require the use of the NIF (e.g. in renewable energy).

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)

- Recent EU guidance on NIF leads to potential missed opportunities -in terms of projects to be financed- between the EU and the EIB. Until 2013, NIF supported infrastructure projects in the transport, energy, social and environment sectors as well as private sector initiatives (in particular SMEs). Following the 2014 report of the Court of Auditors that shed light on the lack of links between EU country strategies and NIF projects, the EU requested the NIF to be used only in EU focal sectors in the future. This decision occurred when the Single Support Framework (SSF) for the period 2014-2017 for Morocco was being finalised. On the EUD side, it had been envisaged not to select sectors such as water as focal sectors in the SSF because support to these sectors was envisaged through the NIF. This new EU requirement therefore constrains the intended EU scope of action -in terms of sectors covered- together with the EIB. On the EIB side, being able to request NIF support only in EU focal sectors which usually do not involve hard funding (e.g. justice) and within which the EIB is usually not active rather constrains the scope of action of the EIB because the NIF is the only way for the EIB to access concessional funding. The EIB therefore finds itself in a relatively less competitive position than other EU DFIs (e.g. AFD and KfW) that access concessionality via their respective Governments. Difficulties have been met beyond Morocco in a number of EUDs that counted on blending to intervene in EU non-focal areas. The EU headquarters progressively show a relative flexibility in practise and accept some blending operations in non-EU focal areas. (JC2.1, interviews with EUD and EIB in Rabat)
- At EU level, there is a structural incoherence between DG DEVCO/EU IFIs and DG Trade about the local preference clause used for procurement at project level. This clause has been used for various blending projects implemented in Morocco (e.g. Noor III, Wind programme, etc.). For Noor III, this clause was required by MASEN to favour local development. It is in line with the EIB guide to

procurement and as such was also accepted by DG DEVCO/EUD. However, it disturbs DG Trade that sees it as a market barrier. MASEN made concessions and accepted to make this clause voluntary instead (the clause is therefore not used to score enterprises during the procurement process). In the near future, an EU-Morocco agreement has to be found on this clause for future EIB lending to materialise in the environmental area as well as for the EU to provide future grant support to Noor.

- Blending projects have been aligned with EU policies (JC2.3, interviews with EUD, EU strategies, project documents).
- Synergies at EU portfolio level could be observed in the sanitation area where the EU intervened through the NIF PNA-ONEE, a BS operation, a traditional project (Projet d'Appui Institutionnel PAI) and a twinning project (JC2.3, interviews with IFIs, EUD and ONEE, project documents). Linkages were established between the NIF and budget support (BS) operations to sanitation: the NIF enabled to support the operator (ONEE) while higher-level policy dialogue and contacts with the inter-ministerial committee of the PNA took place within the framework of BS. With BS being finalised since 2013, the ongoing design of the NIF PNA-ONEE phase II foresees an institutional component to ensure the continuity of the discussions launched with BS. Moreover, the NIF PNA-ONEE Phase I and the PAI1 complemented each other in financing various centres of the PNA. There are few synergies with the ongoing twinning project.
- Blending projects have been well-aligned with national policies and strategies that they often directly supported (JC2.3, interviews with EUD, IFIs and national counterparts, project documents):
  - Noor I: contributes to the financing of the first part of the Moroccan Solar Plan launched in 2009. The Moroccan Solar Plan is the cornerstone of the country's renewable energy strategy. It is also part of the Mediterranean Solar Plan, which is one of the priority projects of the Union for the Mediterranean.
  - PNA-ONEE: The project directly supports the implementation of the Moroccan National Sanitation Programme (PNA) launched in 2006.
  - MorSEFF: the project is in line with the Moroccan laws and code in the field of renewable energy and energy efficiency.

Desk hypothesis	Evidence
Project selection and approval is aligned with policy priorities	This is confirmed. Bending projects are aligned with EU and national policies (see above).
Training has been sufficient	This is partly confirmed. The skills of EUD staff on blending are uneven with part of the EUD staff being already quite acquainted with blending operations and another part being relatively new in this area. One training on blending took place in February 2016.
IFIs and EUDs are clear on the criteria behind the use of grants	This is confirmed.

3.3 EQ 3 Financial efficiency

Main findings in bullet points (JC & source of information in brackets)

- In terms of macroeconomic context, after having declined during the period 2000-2010, the Moroccan public debt has been on the rise from 47% of GDP in 2009 to an estimated 66.6% of GDP in 2014. It remains sustainable according to the IMF and below the benchmark of 70 percent of GDP for emerging markets. However, the relatively large public and external financing needs of the country are a potential source of vulnerability upon which close attention has to be given in the near future. (JC3.1; interviews with IFIs and EUD; IMF, 2014 Article IV Consultation, 2015). The design of Noor I paid attention to the effects of the project on Morocco's creditworthiness: the increase in Morocco's public

debt level due to the intervention was not expected to affect the country's credit risk assessment (project appraisal documents).

- The catalytic effect of blending -in terms of attracting additional financial resources from IFIs, the private and public sector to finance projects- was clear in two cases out of the three examined (JC3.4, interviews with IFIs):
  - PNA-ONEE: The PNA is financed up to 50% by the Moroccan State and up to 50% by the ONEE. The sanitation activity being unprofitable, the ONEE raises debt financing to cover its share of the financing. IFIs and beneficiaries met were of the opinion that the NIF grant was key to attract the financing of several EU IFIs (AFD, EIB, KfW) for the same programme whereas these actors used to finance different projects separately. The EU co-financing became the preferred type of donor support for the PNA on ONEE's side and is now the most important means of support for the PNA (see also EQ8).
  - MorSEFF: IFIs and beneficiaries met were of the opinion that the project had a decisive influence on pooling the funds of the EU IFIs and of the largest Moroccan banks to promote private sector investments in sustainable energy because the grant has been used to finance incentives that were crucial for the project to materialize (see EQ1).
  - Noor I: the financing of the central thermal power pooled together the funds from the public sector and various bilateral and multilateral donors. On the Government's side, the financing of Noor I inscribed itself within one of the strategic priorities of the Kingdom. Moreover, IFIs and beneficiaries met were of the opinion that Noor I is a singular programme, notably owing to its size, its model character for further initiatives, its innovative character, its Public Private Partnership structure, the number of partners involved, etc. As such, all active donors at the time were interested to finance this project. In this context, key stakeholders stressed that the NIF grant did not have a catalytic effect in attracting all these funds but was certainly decisive in reducing the production costs of electricity.
- The amount of the grants was not derived from a specific calculation/formula. (JC3.2, interviews)
  - PNA-ONEE: the NIF grant (€10m) was sized accordingly to TA needs. FRR/ERR considerations have not guided the size of the grant.
  - Noor I: The amount of the grant (€30m) was arrived at in two main ways: i) the quantitative approach based on estimates of the investment grant needed to reduce the unit solar electricity costs to an acceptable level; and ii) the qualitative approach which emerges from programming and availability of funds within the NIF.
  - MorSEFF: the NIF amount (€16.5m) depended on the incentive payment proposed to the banks (up to 2% of the loan amount) and of the investment incentive for the end-borrowers (5% to 15% of the sub-loan amount).

Desk hypothesis	
Assembling the financial package is pragmatic as well as quant-driven	This is confirmed. Putting together the package from multiple sources was a practical rather than quantitative matter.
Target leverage levels should be implicit in grant request	This is not confirmed. The grant amount was not calculated according to a specific formula.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)

- A mix of instruments mostly comprising investment grants (61% of the Moroccan portfolio) as well as investments grants combined with technical assistance (TA) (31% of the Moroccan portfolio) and TA only (7% of the portfolio) was used in the 18 blending projects implemented in Morocco (inventory of projects).
- Blending helped providing quality technical assistance guaranteeing the proper implementation of the projects (JC4.1, interviews, site visits):
    - PNA-ONEE: the technical assistance provided has been horizontal and dealt with: programme oversight; short-term TA on the demand of the ONEE; strategic studies on various themes (e.g. the operational side of the treatment of industrial waters). Overall TA has well responded to the needs of the ONEE but was insufficient to cover all the technical assistance provided by the ONEE for the implementation of the PNA. On the IFI/EUD side, it was crucial that the ONEE also covered part of the costs of the TA.
    - MorSEFF: Technical assistance was provided through two specific components of the project (and not by the EU NIF contribution of EUR 16.5 million): i) EBRD Technical Cooperation (TC) financed through the NIF under the SEMED Project Preparation Framework (PPF) for EUR 3 million; and ii) TC financed through the EBRD SEMED Multi Donor Account for EUR 1.2 million). Technical support has been provided to the participatory bank (BMCE) by an independent consulting firm especially to assess the technical quality of energy efficiency and renewable energy investment projects submitted to the bank. This has been highly appreciated by BMCE, which is typically unfamiliar with appraising technical projects. TC also enabled BMCE to structure its marketing offer in line with the needs of the market. It typically helped BMCE with product design and the establishment of necessary procedures, tools and structures for financing energy efficiency improvements.
- Blending provided instruments that were decisive for the materialization of the projects (interviews with EBRD and BMCE) (JC4.2, interviews). In the case of the MorSEFF, the payment and investment incentives financed through the NIF have been key for the BMCE to become more engaged in the market segment of renewable energy (see also EQ1). The 2% incentive payments to PFIs aimed at encouraging them to actively engage in developing this new business segment, by covering part of the initial investment costs for entering into a new business activity.
- Blending provided instruments that were key to promote innovation and knowledge building in renewable energy (JC4.2, interviews). The investment grant provided to Noor I enabled to reduce the high investment costs resulting from the solar technology: from 0.32 USD/KWh if the project would be financed with commercial debt to 0.23 USD/KWh with the project financed by the packaged proposed by the IFIs (interviews with EUD, EIB and MASEN; project fiche). Besides, the NIF grant partly used to finance MASEN's minority equity participation in the SPC was key for MASEN to progressively gain experience in the renewable energy area. Indeed, MASEN, as minority shareholder, followed cash flows, took part to all technical decisions and had a right to vote and object. Building on this positive experience, MASEN decided for Noor II and III to be a minority shareholder in both the SPC and the Society in charge of exploiting the power plants.
- TA was partner owned and demand driven (PNA-ONEE and MorSEFF). The national and local partners have been highly satisfied with the TA provided (JC4.1, interviews, site visits).

Desk hypothesis	Evidence
TA was partner owned and demand led	This is confirmed. TA was demand-led (PNA-ONEE and MorSEFF) and responded well to the needs. For MorSEFF, the support provided helped the banks to find new market segments that diversify their product and client portfolio.
Partner informed and took part in choice of instrument	This is confirmed. The partners were involved right from the start in project identification and formulation.

3.5 EQ 5 Policy reform

Main findings in bullet points (JC & source of information in brackets)
▪ Blending projects have not enabled to directly tackle issues related to policy reforms but accompanied the implementation of the reforms initiated by the GoM in the renewable energy and sanitation fields through TA and hard construction (JC5.3, interviews, site visits). o Noor I: the NIF grant, used to finance the solar plant, directly accompanied the implementation of the Moroccan Solar Plan. o PNA-ONEE: the TA provided through the NIF grant enabled to accompany the implementation of the PNA. Policy dialogue on tariff issues rather took place through the EU budget support to sanitation (€50m during the period 2009-2013) and through the loans provided by the IFIs. Indeed, the loans provided by the IFIs proved more powerful to impact on tariff issues than the NIF grant. The GoM and ONEE signed a 'contract-programme' covering the period 2014-2017 complemented by a decree foreseeing tariff increases (0,60 DH/m3 in 2014 to catch up since 2008 and yearly annual increase of 0,10 DH/m3) that were expected for several years. This will however remain insufficient to cover high operating costs. ▪ MorSEFF did not aim to address issues related to policy reforms. The facility, in stimulating on-lending for energy efficiency and renewable energy investments, still accelerated the work of the ADEREE on the list of eligible measures and equipment as well as the list of eligible suppliers and installers which had been expected by the banks for years (JC5.3, interviews).

Desk hypothesis	Evidence
Blending usefully complemented other EU policy-related work	This is confirmed, in particular for the sanitation sector (support to the PNA).
Blending and BS together are a more powerful factor of change than either alone	This is confirmed for the sanitation sector where both blending and BS were used to support the PNA. High-level policy dialogue took place within the framework of BS while blending enabled to directly support the operator (ONEE) in hard construction.

3.6 EQ 6 Project quality

Main findings in bullet points (JC & source of information in brackets)

- Blending projects were designed on the basis of solid feasibility studies (JC6.1, interviews, project documents):
  - PNA-ONEE: feasibility studies have been conducted for each centre to be rehabilitated and extended
  - Noor I: the viability of the project was assessed at design stage: economic and financial considerations as well as renewable energy issues were taken into account.
- Blending, conveying the EU benchmark, and IFIs standards often raised project quality by promoting adherence to European and international quality standards (JC6.2, interviews, site visits, project documents):
  - Noor I:
    - Innovative practices (CSP technology) have been introduced
    - Technical and safety issues about the CSP technology have been closely examined in design documents
  - PNA-ONEE and Noor I:
    - Procurement processes rigorously followed national norms
    - Strong environmental and social due diligence:
      - Noor I: strong compliance, with national environmental licensing requirements and regulations and with specified EU and IFI policies
      - PNA-ONEE: social and environmental impact assessment studies realised for each centre to be rehabilitated and extended.
  - MorSEFF:
    - PFIs have been selected through comprehensive procedures ensuring that financial, technical, legal and integrity due diligence takes place.
    - The project guaranteed a minimum adherence to Moroccan standards (which are based on EU standards) and enabled upgrading in promoting adherence to EU standards.
- Continuous monitoring / QA has taken place during project implementation (including Environmental and Social Management Plan (ESMPs)) (JC6.3, interviews, site visits, project documents):
  - PNA-ONEE: close monitoring has been performed during construction: ONEE closely supervised construction works through TA during the rehabilitation/extension of sanitation networks and the construction of the wastewater treatment plants. Manuals have been produced in 2013 to follow the evolution of the works in the various centres.
  - Noor I:
    - Monitoring was well organised and conducted on a regular basis at different levels: i) EPC was in charge of works supervision and engineering. ii) MASEN regularly supervised the construction works as they progressed and followed project financing on the basis of the attainment of technical and financial milestones. iii) an independent auditor conducted performance tests after the works were completed and delivered a performance certificate for the exploitation of the plant.
    - An ESMP has been carried out during implementation: it is a composite of WB Environmental Safeguard Principles, IFC standards and guidelines and Ecuador Principles.
  - MorSEFF: a Monitoring and Information system (TAMIS) containing all information on individual sub-loans and leases has been developed. Besides, all investments are verified by an independent auditor at completion (to check whether expected energy savings have been made) before the incentive is paid to the beneficiary enterprise.

- Blending projects paid attention to the preparation of plans for operation and maintenance of the investments (JC6.4, interviews, site visits):
  - PNA-ONEE: Maintenance of the works is to be ensured by the ONEE. But the ONEE faces severe budget constraints, sanitation being a loss-making activity with tariffs below full cost-recovery.
  - Noor I: Financing of operation and maintenance is guaranteed for 25 years, which is the expected life duration of the power plant. Maintenance of the power plant is ensured by NOMAC. Besides, the SPC shall retrocede the power plant in good working order to MASEN in 25 years.

Desk hypothesis	Evidence
Robust feasibility studies plus potential economic, environmental and social impacts	This is confirmed. Feasibility studies underpinned project design. Environmental and social impact studies have been realised.
Detailed designs and specifications in accordance with international best practises	This is confirmed. The projects have been designed and implemented according to EU (PNA-ONEE and MorSEFF) and/or international best standards (Noor I). The EU benchmark brought by the implication of the EUD in the projects through its grant was key to raise quality standards for the three projects examined in detail.
Effective QA and QC	This is confirmed. Close QA was performed.
Effective O&M	This is partly confirmed. Operations and maintenance are in principle guaranteed. The budget constraints of the ONEE might affect maintenance.
Higher project quality	This is confirmed. Blending led to higher project quality for the three projects examined in detail.

3.7 EQ 7 Finance barriers

Main findings in bullet points (JC & source of information in brackets)

- MorSEFF enabled BMCE to develop its activity in a new market segment (JC7.1, interviews): it promoted on-lending for energy efficiency and renewable energy investments in the private sector. A total of three PFIs should benefit from the MorSEFF. At the time of this mission (April 2016), a loan agreement had been signed with one PFI (BMCE) and discussions were ongoing with two others. The incentive payments encouraged BMCE to actively engage in developing this new business segment, by covering part of the initial investment costs for entering into a new business activity. In one year (April 2015-April 2016), the credit line of BMCE (€20m) has been fully engaged. With MorSEFF providing a comprehensive technical assistance which is crucial for BMCE, BMCE decided to replace its own product called Energico by a MorSEFF based financial product.
- MorSEFF has increased the affordability of loans for end-borrowers and leveraged investments by the enterprises, especially as far as energy efficiency is concerned. Funds have been on-lent at commercial rates so as to avoid introducing pricing distortions on the wider loan market. Instead, MorSEFF has provided investment incentives (in the range of 5% to 15% of the sub-loan amount) to sub-borrowers. These payments have encouraged enterprises to prioritise energy investments (e.g. investments in new equipment enabling enterprises to reduce their energy-related production costs). Three PFIs should benefit from the credit lines. At the time of the mission (April 2016), one credit line for BMCE had been drawn, and discussions were ongoing with CAM and CBP. The credit line for BMCE has been fully engaged in one year (April 2015-April 2016). It concerns just above 50 projects (25 ongoing and 27 in portfolio). (See EQ9 for further details)
- MorSEFF contributed to address specific barriers to financing projects developed by sub-borrowers,

especially SMEs, such as: lack of information on available technologies, lack of energy management skills and planning capabilities and lack of capacity for project development and implementation.	
Desk hypothesis	**Evidence**
FIs have improved their capacities in terms of assessing MSMEs' risk	Partly confirmed. The accompanying TA has provided BMCE with technical capacity to assess RE and EE projects that was not available in-house. BMCE started reflecting internally on how ensuring the provision of this technical advice internally.
FIs have developed a strategy or revised their existing strategies towards the MSME segment (new products, specific trainings, new branches, etc.)	Confirmed. BMCE has revisited its strategy towards EE-RE small-scale projects: it replaced its own product called Energico by a MorSEFF based financial product.
TA have contributed to improve financial literacy levels among MSMEs' managers	NA. Managers were already familiar with the banking system.
Take up rates of guarantees and collateral-substitutes products have decreased	NA. But no reimbursement problem has been reported.
Advantages to use one instrument or another in terms of improving FIs capacity to deal with MSMEs	TA was essential to accompany the PFIs to deal with EE-RE small-scale projects.
Advantages to use one instrument or another in terms of improving MSMEs capacity to deal with FIs	NA. Enterprises were already familiar with the banking system.

3.8 EQ8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)

- Recent changes on the preparation of NIF projects following the creation of DG NEAR early 2015 have increased transaction costs for the EU Delegation and the IFIs. Following the creation of DG NEAR, the responsibilities for the NIF became relatively dispersed within this DG and the division of labour between the EUD and the headquarters related to the preparation of NIF projects became less clear. This has complicated the EUD work for the identification phase of the projects (e.g. slowness of the HQ response on EUD requests). IFIs were also of the opinion that the increased administrative complexity of NIF project preparation increased transaction costs for them. Besides, the lead for the preparation of the projects lies within the contracts and finance section of DG NEAR that tends to be less risk-oriented than the NIF Secretariat previously in charge.
- Blending enabled effective cooperation and cooperation during the design and implementation of the projects, especially for the PNA-ONEE project (JC8.1; interviews with IFIs, EUD, national counterparts, project documents).
    - PNA-ONEE : this joint AFD-EIB-KfW-EU project significantly fostered coordination between the four donors. It enabled three IFIs who used to provide parallel financing to the sector to work together. Besides, there is good cooperation with the TA of the BTC that finances TA for sanitation in 11 other centres covered by the PNA. Joint missions (4 donors + Belgium) have been organized yearly to supervise the project.
    - Noor I: the project is co-financed with a range of bilateral and multilateral donors (AfDB, AFD, Clean Technology Fund, EIB, EU, KfW, WB) as well as by private investors. Joint missions have been organised to supervise the project. NIF procedures offered a framework for improved EU coordination through the implementation agreement, but the project was so voluminous with important matters at stake that donors' harmonisation remained complex.

  - MorSEFF: the project benefitted from EBRD's extensive experience in SEFF's implementation, and in particular on its experience gained in Turkey. In favouring cooperation between three DFIs (AfD, EBRD, KfW), it avoided a potential competition on the same market with a similar product. But the project has not specifically led to increased cooperation between the DFIs/EU.
- Blending reduced transaction costs for the PNA-ONEE but showed high transaction costs for the other cases examined (JC8.2, interviews):
  - PNA-ONEE: while at first the ONEE was a bit reluctant about the co-financing, it then noticed that this set-up facilitated project implementation (due to the common account, the single procedures manual, joint identification and supervision missions, and common reporting), and now requests the same set-up for the next programme under discussion. Overall transaction costs have been significantly reduced for the ONEE compared to the past when each donor had its own programme. The AFD, as lead IFI, is the only interlocutor of the ONEE and all IFIs play along with the rules. It is still possible to go further in harmonisation through for instance a single loan agreement.
  - Noor I: transaction costs remained high: each IFI agreed to its own terms and conditions for the loan with MASEN and, more importantly, signed a "no-objection" letter to approve all major decisions in the project. MASEN has had to maintain bilateral relations with every donor throughout project implementation. Progress in harmonisation especially lies in the joint supervision missions and in the common template for the semi-annual report. Besides, payment due dates of the NIF grant have not been well respected (with an 8-months delay on Noor I); this forces MASEN to refinance itself on the financial market. On the EIB side, transaction costs have been higher with blending than for traditional loans (e.g. time to prepare the application form, formal and informal Q&A dialogue during project preparation)
  - MorSEFF: transaction costs remained high both for the IFIs and the PFIs: bilateral negotiations with each IFI on the loan agreements; each IFI has had its own requirements with specific contractual clauses; each IFIs carries out its monitoring because it is not possible for the IFIs to fully delegate monitoring for an operation dealing with the private sector.
- Blending enabled an approach with a 'European front' that has been valued by all stakeholders met during the mission. Overall visibility requirements (logos, billboards) have been respected and it is well-known at national and local levels that the EU contributes to the financing of blending projects. However EU visibility suffers from the absence of a dedicated communication strategy at EU level (JC8.3, interviews, site visits, project documents).
- Blending projects generally did not envisage a specific budget to finance visibility/communication actions (JC8.3, interviews, site visits, project documents). A good practice was noted for the PNA-ONEE where a 'communication' component accompanies programme implementation. It takes the form of TA financed by the BTC programme and the ONEE so as to sensitise the population on sanitation for all the centres covered by the PNA (including those financed by the NIF): a communication strategy as well as regional action plans on sanitation were developed; facilitators have been deployed at local level to organise sensitisation events (for instance in schools). This TA facilitated the acceptance by the population of the sanitation works and enabled to reduce tensions locally (land issues; payment for sanitation by a system of fees).
- For the MorSEFF, a launch event giving visibility the donors involved was organised. However, the visibility of the MorSEFF remains too timid for final beneficiary enterprises despite the presence of the BMCE in fairs.

Desk hypothesis	Evidence
Preparation is time consuming but leads to better projects	This is partly confirmed. Blending led to increased cooperation and coordination in particular for the PNA-ONEE project.
Management costs were inferior to pure loans	This is partly confirmed. The PNA-ONEE blending operation led to a reduction of transaction costs for the ONEE compared to the past where several donors intervened separately. For the two other projects examined, transaction costs remained high.
Dissemination of knowledge has led to visibility	This is partly confirmed. Dissemination of knowledge and communication on the activities of the projects enabled to sensitise the population on sanitation / on EE-RE financial products, but has not specifically led to enhanced EU visibility.

3.9 EQ 9 Results

Main findings in bullet points (JC & source of information in brackets)

- Blending projects have not had an immediate link with poverty reduction. Besides, project design documentation does not make explicit reference to poverty reduction. (JC9.1 and JC9.4, interviews, project documents):
  - PNA-ONEE: out of the examined projects, the PNA-ONEE is the project the most directly linked to poverty-related issues since it has enabled the provision of sanitation services for the population of middle-sized urban centres (from 5,000 to 10,000 inhabitants). These centres are part of the list of the 65 selected centres prepared by the ONEE on the basis of eligibility criteria that pay an indirect attention to social issues (social issues are a sub-component of the ecological criteria). But the PNA promotes territorial balance. Rural centres, which are not as yet covered, should be targeted in the second phase of the programme, hereby following the sequence adopted by the Government.
  - Noor I: is a large infrastructure project expected to have -beyond positive environmental effects- a trickle-down effect on the socio-economic development of the Ouarzazate region. It is interesting to note that MASEN has made great effort to align Concentrating Solar Power deployment with the region's livelihood context to meet broader human development objectives and to integrate the project within the productive structure of the local economy through the financing of local developments projects (see below under JC9.3 & JC9.6).
  - MorSEFF: the credit line targeted fairly large enterprises demonstrating a good financial standing as sub-borrowers.
- Physical results have been obtained for the three projects examined (JC9.2 and JC9.5, interviews, project documents, site visits):
  - Noor I: the solar plant has been built over a two-year period (2013-2015) with no major delay compared to what was planned initially. Construction works for Noor II and III should be finalised during the second semester of 2017. Construction works are of good quality. The plant is running at full capacity since February 2016 with a production capacity of 160MW/hour as planned. It operates during approximately 12 hours per day and has a storage capacity of 3 hours to provide energy during peak periods.
  - PNA-ONEE: the works consist in the rehabilitation and extension of sanitation networks and in the set-up of wastewater treatment plants in 25 urban centres. The project faced important implementation delays (over a year) mostly owing to land issues (land for the construction of the plant). Construction works are finalised in 4 centres and ongoing in 21 centres. Construction works observed during the site visits are of good quality. The wastewater treatment plants are in operation in 3 centres (Boudnib, Ben Taïeb and TanTan)

- MorSEFF : the project faced important implementation delays: the activities were expected to start in March 2013, but lengthy negotiations with participating banks postponed the beginning of the implementation phase in September 2014. Three PFIs should benefit from credit lines. At the time of the mission, one credit line for BMCE had been drawn, and discussions were ongoing with CAM and BCP. The credit line for BMCE has been fully engaged in one year (April 2015-April 2016). It concerns just above 50 projects (25 ongoing and 27 in portfolio). Two thirds of the projects are in the sector of industry. The projects mostly concern energy efficiency investments (and less so renewable energy investments). The average loan size is about €200,000. Moreover, BMCE started reflecting internally on how to institutionalise the results obtained (e.g. through adapting its strategy towards sustainable energy or hiring engineers to ensure technical advice internally)

- The three projects have a clear potential of environmental impact in the future (JC9.3 & JC9.6, interviews, site visits, project documents). It is expected that the 500 MW Ouarzazate Program (Noor I, II, III) will avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) by producing renewable electricity. The five solar plants envisaged by the Moroccan Solar Plan have a full target capacity of 2,000 MW by 2020 that should reduce carbon emissions by 3,7 million ton CO2. PNA-ONEE contributes to improve waste water treatment throughout the country. MorSEFF promotes energy efficiency and renewable energy investments that shall also avoid greenhouse gas emissions (the target of 150,000 ton CO2/annum was set for the Facility).
- The three projects have the potential to lead to wider socio-economic results (JC9.3 & JC9.6, interviews, site visits, project documents).
  - Noor I:
    - Economic effects locally and in Morocco in terms of business generation around renewable energy. So far, around 30 new enterprises set up operations in Ouarzazate and in the country. Besides, 62 people are permanently employed to run Noor I; and up to 2,000 temporary jobs were created during the peak of the construction phase.
    - Social effects: MASEN invested more than €5m in 38 local development projects in education, health, agriculture, infrastructure during the period 2010-2015 to support the integration of power plant projects in their socio-economic and territorial environment. These projects enabled to reconstruct roads, provide health care, promote entrepreneurship through seminars, etc. They reached 20,000 direct and indirect beneficiaries according to MASEN.
    - Larger effects related to the reduction of Moroccan dependence on imported fossil fuels are expected in the medium term once the other four envisaged solar power generation plants will be in operation
  - PNA-ONEE: will lead to an overall improvement of access to sanitation services for the population throughout the country. In the three centres in exploitation, the rate of connection to the sanitation system improved from 24% to 95% in Ben Taieb, from 0% to 98% in Boudnib and from 75% to 98% in Tan-Tan. End 2015, the expected total population by 2020 of the centres benefiting from the NIF grant was 677,000 people, namely more than the objective initially set (570,000 people).
  - MorSEFF: the project remains at a rather micro level with around 50 enterprises having benefited from the credit line extended to BMCE but has potential on the economic front since it enables benefiting enterprises to optimise their productivity (through the renewal of equipment) and to reduce their production costs (energy bill). Moreover, additional enterprises will benefit from the credit lines to be extended to two other PFIs.
- The financial sustainability of the supported activities remains a key challenge for the PNA-ONEE. The sustainability of sanitation is regularly discussed in the AFD aides-mémoires with the activity being structurally in deficit. Tariff increases have been confirmed for the period 2014-2017 but they remain modest and insufficient to cover operation costs. With rural centres to be targeted in the future within the framework of the Rural National Sanitation Programme, the issue around the financial viability of

the activity will increase. Besides the dismantling of individual sanitation equipment remains crucial even if mitigation measures have been taken for the most sensitive centres.

- Financial viability has been duly reflected upon for Noor I. It is ensured during 25 years by the contractual commitment from the GoM to cover the gap between the solar electricity price offered by the SPC to MASEN and the price at which ONEE buys it from MASEN. After the 25-year period, the plant will be retroceded to MASEN in good working condition and should continue being operated. While there is limited return on experience with this technology, the oldest CSP power plants implanted in the USA have been operating for 35 years. Operating and maintenance costs of CSP power plants are relatively low. Besides, project costs of solar electricity are known (price stability is hence guaranteed) while the costs of the alternatives to CSP (fuel and gaz) are unknown and subject to fluctuations in the future.

Desk hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	This is not confirmed. The chain of effects was clear for the three examined projects.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	This is not confirmed. Risks were identified at design stage; ESIAs have been conducted. For Noor I, a Construction Environmental and Social audit performed end 2015 shows that: insufficient resources were being dedicated to environmental management onsite but no environmental damage was noted; social aspects were addressed successfully and went beyond the requirements of the SESIA and international good practice.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	This is confirmed. The projects aim at achieving environmental impacts and are not directly linked to poverty reduction.
Monitoring of results was uneven across projects and IFIs and often insufficient	This is partly confirmed. The depth of monitoring is uneven across IFIs, the AFD and the EBRD conducting a more in-depth monitoring than the EIB. In-depth monitoring has been realised by the ONEE for the PNA and by MASEN for Noor I.

Annexes

Annex A: Persons Met and programme

Mission dates: 4 April – 13 April 2016
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Programme

Date	Programme
Monday 4 April	• **EUD:** Gerhard KRAUSE • **EIB:** Pierre-Etienne BOUCHAUD ; Fildine BARGACHI • **Ministère délégué chargé de l'Environnement:** Abdellah FARAH ; Hafid EL OUALJA • **OIEau :** Arnaud COURTECUISSE
Tuesday 5 April	• **AFD:** Lionel GOUJON • **ONEE:** Said EZZAHNI ; Soumya GUEDIRA ; Samia BADRI ; Imane KAMAL ; Yasser EL FAHIM ; Abdelouahed CHERKAOUI
Wednesday 6 April	Field visit - PNA (ONEE - Oujda) - Centres of Boudnib and Jerada: Abdellah BOUALI ; Mohammed DENDANE ; Yasser MOUFID
Thursday 7 April	• **EBRD:** Laurent CHABRIER ; Anas KHALLOUQI • **MorSEFF:** William C. FELLOWS ; Mohamed ALAOUI • **BMCE:** Aicha HAJJAM ; Soraya SEBTI ; Bouazza ZOUBIR • **MorSEFF-Final Beneficiaries: CAP Holding S.A.** Amine KORATI ; **MaThé** Mohamed EL MANAR ; Anas BENACHIR ; Bouchaib AMRI
Friday 8 April	Field visit - PNA (ONEE - Marrakech) - Centre of Imintanoute: Noureddine AIT EL HAJ ; Mohamed AMZIL ; Said ERRAMI
Monday 11 April	Field visit - NOOR I (MASEN - Ouarzazate): Mamoun BEDRAOUI DRISSI ; Victor CABALLERO ARCOS ; Abdellah MOATI
Wednesday 13 April	• **Ministère de l'Intérieur:** Abdelmajid BEN OUMRHAR • **MASEN:** Dayae OUDGHIRI ; Fatima HAMDOUCH • **EUD:** Gerhard KRAUSE ; Jacques LEGROS ; Maxime LA TELLA

Annex B: Documents Consulted

- Project fiches/Contribution requests presented to the operational board meeting
- EU Agreements/Contracts, including Annexes on description of the action
- Feasibility studies, Environmental and Social Impact Assessments
- Progress reports:
    - EIB, project progress reports and 'compte-rendu de mission' on Noor I
    - MASEN, Rapport de la Mission de Supervision des IFIs, Février 2016
    - AFD, aides-mémoires on PNA-ONEE (2012, 2013, 2014)
    - ONEE, Rapport d'activité semestriel Juillet-Décembre 2015 sur le PNA
    - EBRD, Quarterly technical reports on SEMED (2014, 2015)

Annex C - Survey to final beneficiary enterprises from the MorSEFF

Two final beneficiary enterprises having concluded loans from the BMCE have been met.

Votre activité et votre besoin en termes d'appui financier :		
Merci de décrire votre activité (secteur, chiffre d'affaires, #employés, année de début d'activité, etc.)	▪ Activité : groupe industriel tournée vers l'agro-industrie (minoterie avec société en intégration-aval : transport, stockage blé, commercialisation farine et emballage). Chaine de valeur. Développement de l'agro-alimentaire. ▪ Employés : 1000 sur 6 sites basés essentiellement à Casablanca et dans 2 autres villes marocaines ▪ CA: 2,5 milliards MAD	▪ Société créée en 2005 spécialisée dans la production du thé et des infusions. ▪ CA 2015 : 625 millions MAD. ▪ Salariés: plus de 250 personnes.
Quel était l'objectif de votre demande de prêt (investissement dans un nouvel équipement, etc.) ?	Au regard du coût de l'énergie qui augmente, le groupe a souhaité réduire sa facture énergétique. En consultant des fournisseurs pour l'acquisition de panneaux photovoltaïques (PV), la BMCE a orienté l'entreprise vers la MorSEFF. Deux prêts ont été contractés pour 2 sociétés du groupe : - Installation PV sur le toit. Batteries de compensation / mise en réseau des compresseurs / système de suivi de gestion électrique pour la 1ère société - Renouvellement de compresseurs pour la 2ème société	Extension de la capacité de production. Changement réglementaire au Maroc pour le conditionnement et la production locale. Pour s'orienter vers l'internationalisation de nos produits. Gens de la BMCE ont proposé le produit. Dans le but d'augmenter la capacité de production, de s'orienter vers l'internationalisation de ses produits, et de respecter le changement réglementaire au Maroc pour le conditionnement et la production locale, la BMCE a proposé le produit de la MorSEFF. La subvention à l'investissement proposée dans le cadre de la MorSEFF a rendu l'offre de la BMCE compétitive par rapport aux conditions offertes par d'autres banques et a donc représenté un élément déterminant dans le choix technologique fait pour l'investissement : l'entreprise s'est tournée vers une technologie européenne plus efficace sur le plan énergétique mais avec un coût important plutôt que vers une technologie chinoise plus compétitive mais consommatrice sur un plan énergétique. Ce choix reflétait aussi les valeurs écologiques de l'entreprise.
Quelles sont les caractéristiques du prêt demandé (montant, court-terme/long-terme, etc.) ?	Prêt à 5 ans avec 3 contrats en leasing signé récemment (il y a 1,5 mois). La durée d'amortissement a été choisie pour permettre de rentabiliser le prêt. Prêt sur 5	Prêt de 150 millions MAD sur 7 ans environ. La prime a porté sur la partie équipements (machines) de ce prêt qui représente 20 millions MAD.

	ans. Le retour sur énergie devrait compenser ce que l'entreprise aurait du payer en énergie - 6m MAD pour l'installation des panneaux (panneaux en provenance de Chine / montage via un groupe français) + 1,5m MAD pour efficacité énergétique pour la 1ère société - 1,5m MAD pour l'efficacité énergétique pour la 2ème société	Les autres banques avaient proposé des taux plus intéressants mais avec la subvention la MorSEFF était plus intéressante au final.
Avez-vous obtenu le montant souhaité? Avez-vous connu des difficultés pour obtenir le prêt ?	Pas de difficultés particulières rencontrées.	Le montant correspondait à ce qui était attendu.
Les résultats du prêt:		
Que considérez-vous être les principaux bénéfices du prêt (hausse des recettes de vente, amélioration de la qualité de vos produits, etc.) ?	L'équipe de la MorSEFF est très professionnelle et rapide: disponible pour accompagner sur ce type d'investissements. Elle a aidé à l'évaluation des devis des fournisseurs potentiels.	Le prêt a permis de mettre en place de nouvelles lignes de production dans le but d'optimiser la productivité des lignes et de faire baisser la facture énergétique. Les lignes viennent d'être installées, si bien que les effets ne sont pas encore visibles.
Est-ce que le prêt a contribué à créer des emplois dans votre entreprise ou de façon plus indirecte ? Si oui, combien d'emplois (temporaires/permanents) ont-ils été créés ?	NA	Il est attendu que les lignes automatiques et sécurisées permettent une meilleure sécurité au travail (moins d'accidents).
Est-ce que vous observez des bénéfices plus larges sur un plan économique et social liés au prêt reçu (p.ex. meilleur impact environnemental de votre activité) ?	NA – pas encore reçu le matériel en leasing	NA – lignes viennent d'être installées.
Votre connaissance du secteur financier et votre relation avec la banque :		
Est-ce que vous vous considérez bien informés au sujet des produits dédiés au financement de l'énergie durable de la banque ?	Non peu informé	L'entreprise connaissait bien la BERD et plusieurs grandes banques marocaines.
Est-ce que vous connaissez les produits	Non	

financiers offerts par d'autres banques ?		
Est-ce qu'il s'agit de votre premier prêt avec la banque ? Si non, combien de fois avez-vous déjà fait une demande de prêt ?	Non, l'entreprise avait déjà souscrit à des emprunts auprès de la BMCE	L'entreprise a contracté des prêts avec la BMCE et d'autres banques pour financer son ouverture et les lignes de fonctionnement.
Avez-vous déjà rencontré des difficultés pour rembourser votre/vos prêt(s) ?	Non pas de difficultés pour rembourser les prêts	Non pas de difficultés pour rembourser les prêts
Avez-vous déjà contracté un emprunt dans d'autres banques ? Si oui, pourquoi avoir choisi cette banque pour ce prêt ?	Oui, l'entreprise a aussi d'autres emprunts dans d'autres banques.	L'entreprise avait contracté des prêts avec d'autres banques. La BMCE a été choisie du fait de la prime offerte par la MorSEFF.
Selon votre opinion, qu'est-ce que la banque devrait améliorer pour augmenter l'attractivité des prêts en matière d'énergie renouvelable ? (une plus grande flexibilité dans les remboursements? des prêts à plus long terme? plus de sensibilisation? etc.)		
Contexte : le marché de l'énergie renouvelable est aujourd'hui porteur au Maroc, ce qui n'était pas le cas il y a quelques années. ▪ Etre mieux informé sur les offres à travers les journées spéciales 'énergie' ou les foires. La BMCE était présente à la foire de l'énergie solaire mais cela très timide / pas très visible. ▪ Efforts seraient à faire sur le taux proposé car la BMCE bénéficie de taux intéressants avec la BERD. ▪ Il est important que la MorSEFF travaille avec d'autres banques (par exemple Tigeri).	Contexte : le marché de l'énergie renouvelable est aujourd'hui porteur au Maroc. Il existe un travail de sensibilisation à faire sur : ▪ Constructions qui répondent aux normes énergétiques ; ▪ Matériel roulant qui représente un gros marché potentiel au Maroc ▪ La MorSEFF est une très bonne initiative. Elle a un potentiel pour changer les mentalités. Les contacts avec le personnel de la MorSEFF ont d'ailleurs donné des idées à l'entreprise pour qu'elle s'ouvre des perspectives sur l'industrie ▪ La BMCE n'est pas suffisamment connue. Plus de communication est nécessaire. Le produit n'est pas assez vulgarisé. ▪ Les critères d'éligibilité à la MorSEFF sont un peu contraignants pour des entreprises déjà établies. La MorSEFF promeut davantage des investissements qui sont neufs. Il est possible de l'utiliser pour remplacer du matériel existant, mais le matériel neuf ne doit pas dépasser un certain pourcentage du total des investissements. Des entreprises se retrouvent de facto exclues, notamment les PME qui peinent à accéder au financement. ▪ Il serait intéressant que d'autres banques proposent ce produit également. ▪ Il faudrait déclencher le paiement de la subvention au même rythme que la réalisation du projet (système de tranches p.ex.)	

Annex D: Pictures

1. Ouarzazate Solar Plant (Noor I)

The complex covers 480 ha; 95% of the area is covered with parabolic mirrors.

Source: Gizmodo Australia

Source: AFP, Getty images

2. National Sanitation Programme (PNA-ONEE)

2.1 Centre of Jerrada (region of Oujda)

The wastewater treatment plant of the centre is finalized but not yet in exploitation (final supervision tests were ongoing).
Technique used: aerated ponds.


مشروع التطهير السائل لمدينة جرادة- قسيمة : محطة التطهير
PROJET D'ASSAINISSEMENT LIQUIDE DE LA VILLE DE JERADA -Lot : Station d'épuration

2.2 Centre of Imintanoute (region of Marrakech-Safi)

Engineering works are ongoing (60-70% complete mid-April 2016).
Technique used: anaerobic ponds and bacterial bed.

3.MorSEFF


MORSEFF
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STAKEHOLDERS
MorSEFF is an 800 million dirhams credit facility dedicated to financing energy efficiency and small-scale renewable energy investments of private companies in Morocco.
Bank financing, free technical assistance and investment incentives are bundled into one unique package dedicated to financing investments leading to better quality equipment, reduced operating costs and improved competitiveness.
Below is a high-level summary of the key features of MorSEFF.
Eligibility
Borrowers: >50% privately-owned companies
The cumulative financing limit per borrower/lessee - across all project types/categories and over the entire lifetime of the Facility - is 50 000 000 DH.
Technical criteria: Investments leading to at least 20% energy savings (30%
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Case study note – Mozambique

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1. Introduction and context

1.1 Development cooperation

Mozambique has a strategic regional role as a series of east-west transport corridors connect land locked countries to Indian Ocean ports in Mozambique (Malawi, Zambia, Zimbabwe, DRC). It has now been more than 20 years since the peace accord ended the civil war and the past two decades have firstly concerned with rebuilding shattered infrastructure and rebuilding communities. More recently increasing exploitation of natural resources and extractive industry is playing an increasing role in strong economic growth although the recent downturn in demand worldwide is now seriously impacting on the national economy and currency (the Metical is suffering a serious devaluation against USD) in response to which the exchange controls are being (re) introduced in December 2015. The country is no longer classed as 'fragile' although there have been periodic (and recent) hostilities between RENAMO and government forces (FRELIMO) in central Mozambique.

a) EU support to Mozambique under 10 EDF identified as focal sectors transport infrastructure and food security with support to non-focal sectors including Water and Sanitation (WATSAN), telecommunications, health infrastructure, energy, education, population, NSAs and private sector. 11 EDF support concentrates on GBS and rural development.

- EDF 9: 96% of the allocated amount has been contracted, 90% actually disbursed (i.e. 94% of the contracted value)
- EDF 10: 54% of the allocated amount has been contracted, 37% actually disbursed (i.e. 69% of the contracted value).

b) Mozambique's development cooperation with other partners focuses mainly on infrastructure, energy and support to private sector development.

- EIB's portfolio in Mozambique is relatively balanced between energy (34%), credits lines (25%), industry (21%) and transport (20%)[67].
- KfW is active in Mozambique in the education sector (through teacher training and school construction for instance), in supporting the decentralization process (through building economic infrastructure such as roads, markets, bus stations etc.), and in promoting a sustainable economic development (by encouraging low-interest loans with longer terms for example)[68].
- Between 2003 and 2011, the AFD invested over €280 million in Mozambique, of which 36% were dedicated to infrastructures, 17% to water management and 15% to health[69].

67 EIB website, 31 March 2016 ("Finance contracts signed - Mozambique") – See Annex C

68 https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Subsahara-Africa/Mozambique/

69 AFD, *AFD and Mozambique: A sustainable and diversified partnership,* June 2012.

1.2 Methodology and projects selected

Mozambique was selected for a field mission because there are blending projects completed, close to completion and ongoing. EU cooperation in Mozambique has included budget support (PRBS III is ongoing – Poverty Reduction Budget Support) and sector budget support (to roads sub-sector; agricultural development [PROAGRI], health [Health provincial Common Pool and Health Support Programme]). Blending projects include the transport, water and energy sectors.

The country visit started with a review of desk-based information and finalisation of a list of relevant stakeholders. A constraint, arising from the proximity of field visit to the Christmas period, was a problem of availability of some identified respondents (e.g. Kfw, CFM). But despite this most identified stakeholders and partners were interviewed including EUD personnel, partner financing agencies and national institutions. In a few cases of non-availability telephone contacts were made or subsequent interview by the national collaborator were carried out. A structured list of questions and identified information gaps was used as a basis for interviews. It was not possible to undertake 'formal' field visits to the identified blending projects (although the evaluator is familiar with some locations during previous visits to Mozambique) and a limited survey of beneficiary viewpoints has been undertaken (see Annex D).

The evaluation focussed on 2 main projects completed or almost completed i.e. Beira Corridor and Maputo International Airport plus reference was made to 2 other projects Maputo Water Supply Project I and Maputo Backbone Transmission System Project and to the project preparatory activities of MRGP (Mozambique Regional Gateway Programme – see Annex E).

- Beira Corridor Project consists of 2 components a) Rehabilitation of Sena railway line and b) dredging of Beira port. The total project costs are €189M – EIB €65M (including €29M IRS from ITF), WB/IDA /€85M), Danida (€3M), ORET (Netherlands) (€10M), Equity (CFM) €26M. Rehabilitation of the Beira Corridor is a component of SADC regional connectivity strategy ratified by GOM. After serious delays the rail works were completed in 2012, dredging works in 2014.
- Maputo International Airport (MIA) - The investment, totalling an amount of €56M – is financed by ITF grant (for consultancy services) (€2M), AFD loan (€34M), EIB loan (€20M). The rehabilitation includes safety improvements, repairs and relocation to pavements, aprons and taxiways, increasing structural capacity. Works officially opened December 2015 (although not all works were actually complete).
- Maputo Water Supply Project (MWSP) (2005 – 2011) – MWP: The total investment of the project is €96M comprising EIB loan (€30M), grants from EUWF (€25M), AFD (€7M), FMO (€19M) and GOM contribution (€14M). Rehabilitation of water supply infrastructure, reduce wastage and extension of service to the outer fringes of the metropolitan area formed by Maputo and Matola.
- Mozambique Backbone Transmission Project. The Backbone is a double transmission line from Tete province to Maputo and connection to the Southern Africa Power Pool – 400 kv HVAC & 800 kv HVDC. ITF grants for i) consultancy services to advise start up of a new entry to handle public shares in power mega-projects now in preparation (€1.5M) – cancelled prior to disbursement and ii) Strategic Regional, Environmental and Social Assessment 2011/12 (€0.7M).
- Mozambique Regional Gateway Programme (MRGP) – summarised in Annex E.

2. Conclusions

2.1 Strategic Relevance

Although the projects examined were claimed to have specific challenges to which blending was able to respond, this was actually only partially the case.

- The Beira Corridor project rail component suffered serious delays due to implementation problems and did not achieve its objectives or any of the performance indicator targets because of the structure of the Concession Agreement and because of ineffectual supervision. The project concept and preparation were responsive to the action Plan for the Reduction of Absolute Poverty (PARPA) but the design did not take into account available strategic information and thus, what was originally intended to be a key project to catalyze private sector investment did not deliver intended benefits. The port dredging component has delivered expected outputs, albeit with delays.
- Maputo airport – rehabilitation of outside facilities was expected to facilitate policy dialogue. Consultancy services are preparing operations and maintenance plans for the facilities delivered by the project which may be taken as a structure for longer term management.
- MWSP was expected to improve coordination and planning of water supply as well as institutional capacity whilst improving service delivery (i.e. increased water production and treatment capacity, reducing losses from 56% in 2007 to 41% by 2011 and increasing distribution of water in outlying urban areas ~600000 persons). A third objective by means of leasing contracts with small private operators receiving a start up subsidy is to improve access to water for poor people.

Grant proportions were determined by various considerations but were conditional in all cases by concessionality requirements (~35%). However, the process of determination and calculation is nowhere documented in greater detail and the final proportions of the various financing components, including the proportions of total package provided by individual financing partners, appears to have been subject to negotiation between partners. Although GOM obviously agreed with the final financing package there is no record or recollection of government participation in said negotiation.

Blending has obviously followed on from grant-funding of projects but there is no strong sense of facilitation of a progression to purely loan-financed projects. The increasing use of loan funding is likely to depend on a policy of gradual increase in consumer tariffs. Tariffs and prices are highly subsidised in Mozambique and past attempts at even modest increases have proved to be politically hazardous. In this scenario a transition to purely loan funding is likely to be protracted.

The blending projects were supportive to and compliant with national sector policies. In the case of Maputo airport, air traffic increased by 32% between 2005 and 2010 and there are plans for heavy investment in the sector. MWSP is compliant with PARPA II which makes the WATSAN sector one of its priorities whilst the national water policy affirms the social and economic value of water and the need for sustainable management of this resource.

The Beira Corridor project is part of the SADC development strategy ratified by GOM and is thus fully compliant with PARPA. The Beira Corridor was also a target for EC 10EDF CSP/NIP which identified transport as a focal sector in support of PARPA II which calls for *'rapid, broad based and sustainable growth'* and more emphasis on growth of the productive and private sectors.

2.2 Added value

Blending has been used in a context of established policy dialogue but there is no strong inter-linkage between BS and Blending. Sector dialogue whether or not resulting from BS or SWAp has not included blending as a specific topic of discussion, although such sector dialogue has impacted to a varying extent on sector management. There is little evidence of a blending project contributing to policy reform[70] – the nearest approach appears to be consultancy services preparing an operations and maintenance plan for the completed infrastructure (e.g. Maputo Airport).

Coordination between the financing partners is reported to be generally satisfactory although there are issues. The application of the Mutual Reliance Initiative (MRI) principle and nomination of lead donor has reduced the requirement for multiple reports or proprietary procurement rules (but not entirely avoided such issues). Overall, transaction costs are reported by both financing partners and GOM agencies to be higher for blending projects than for purely grant-funded projects. Critical reference has been made to the long time required for EU decision making and approval processes.

Although all blending projects involved consultancy services the studies, design and supervision plus varying degrees of Technical Assistance (TA), a specific Project Management Unit (PMU) was only established for the MWSP blending project (which was incorporated in the FIPAG overall organisation)**.** Apart from the usual difficulties in rigorous application of international procurement regulations there is reported to be no problem of conflict with national procurement law (although approvals for national promoters to award contracts can result in huge delays and considerable bureaucratic effort in order to obtain no-objection/approval of national 'administrative courts'[71]).

Although designs of blending projects (including ESIAs and feasibility studies) are reported to be of good quality it is contended that this quality is no higher than previous grant-funded projects whilst subject to the same concerns about assumptions. Whilst the statement is correct for the MWSP and Maputo Airport it is certainly not the case for the rail component of the Beira Corridor project for which the WB ICR comments that the design was unusual in a number of aspects that exacerbated some challenges including levels of GOM shareholding in the concession, ineffective regulatory body, no clear separation between rail operations and infrastructure management and a lack of linkage between inter modality and integration (i.e. between rail and port modes). In

[70] It is suggested (by EUD) that individual development projects (whether blending or direct grant) do not contribute to policy reform except in very specific circumstances

[71] Tribunal de contas

addition, shortcomings in technical supervision skills, due diligence, monitoring and necessary additional studies were identified.

The 'pipeline procedures' for identification of political blending projects are 'ad hoc', opportunistic or reported by most partners as unclear. This is not to suggest that projects are outside of the national policies or the sector advisory groups but rather that, although the IFIs are dependant upon the potentially sizeable ITF grant proportion of financing, the 'working up' of the project to 'bankability' or the financial engineering is an unclear process. The only known example of a dedicated 'PMU' which takes forward potential blending projects from identification, feasibility (including ESIA studies) to bankability is the DFID – funded MRGP (Mozambique Regional Gateway Programme) which has been involved in multiple projects in the transport (especially rail and port) sectors. This project closes in early 2016 (see Annex E)[72].

Communication issues are reported between financing partners whilst visibility of EU support is limited. Whilst it is acknowledged that EIB is part of the EU family, this is only appreciated to a limited degree by national partners. Effectiveness of communication with EIB appears to vary between partners; a similar issue was reported in communication with EU BXL.

2.3 Results

Projects have delivered results but long term sustainability (and affordability) are not proven although attention has been given to operation and maintenance of the completed infrastructure). O & M plans are being produced for the Maputo Airport outside works but longer term sustainability depends on allocation of adequate funds and maintenance being adequately undertaken. Similarly, with MWSP where the project facilitated the design of an improved financial model for FIPAG as a whole. The Beira Corridor port component concerned dredging which is a continuous issue in Beira port. The rail component (Sena Line) is currently subject to other rehabilitation and upgrading works although it is not clear to what extent these ongoing works arise from deficiencies in the works carried out under the Beira Corridor, although shortcomings were identified in these works. Vale (major coal mining company in Tete and transporter) considers the condition of the line and maintenance to be deficient.

Projects have targeted macro rather than pro-poor levels. The only project examined which directly targets the poor is MWSP which expands water supply in poor urban areas. All the other projects aim at macro levels with an intended 'trickle down' of the benefits to the poor although it is reported that social and poverty alleviation expectations from the rail component have not been realised as regards passenger services or movement of freight by small local producers and traders. The link between the Maputo Airport project and pro poor outcomes appears tenuous.

Although there is an element of replicability, none of the project examined have scaling up potential. The port dredging will certainly have to be duplicated in a few years and MWSP has gone onto an extension phase. Institutional strengthening has been limited.

[72] Given the apparently 'ad hoc' arrangements it is clear that whether EU, EIB or other IFI take responsibility for 'working up' a project proposal, there should adequate resources (financial, human) to enable such 'speculative' studies – EUD comment

3 Findings across the Evaluation Questions Conclusions

3.1 EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
The projects examined were reliant upon provision of the grant element to enable the blending project to progress. ▪ **Mozambique Backbone Transmission System Project**[73] The grant operation (€1.5M – ITF, project lead AFD) was intended to allow consultancy services to accompany and support the start-up of a new entity to handle all public shares in power mega-projects now under preparation by i) removing incorporation options (legal and financial structures) ii) establishing business plans, staffing and incorporating the new company iii) supporting necessary fundraising. (JC 1.3; interviews with IFI, EUD) ▪ **Maputo International Airport** The grant operation financed consulting services for detailed design (scope extended to include supervision of construction). (JC 1.2 & 1.3, interviews with IFI, EUD). ▪ **Maputo Water Supply Project** The grant operation (€25M – EUWF; €6.6M – AFD; €18.6M – FMO) enabled the viability of the blending project as a whole i.e. increased water production and treatment, reduced losses and increased water supply in poor urban areas. (JCs 1.2 & 1.3; interviews with IFI, EUD, national partner). ▪ **Beira Corridor Project** IRS (€29M – ITF) enabled the concessionality level of 35% in borrowing and thus is critical for the materialisation of investments. In addition, a grant element (€10M – Netherlands/ORET) enabled the environmental studies and detailed design for the port dredging component. (JC 1.3; interviews with IFIs, EUD, national partners).

Hypothesis	Evidence
Projects posing special challenges requiring blending will continue to grow	Partially confirmed. The identified special challenge for Beira Corridor project (to inject a commercial dimension by creating a PPP and enabling loan finance under HPC regime) did not result in a successful rail component, the concession was cancelled and operation of the Sena rail line has reverted to CFM. The identified challenge for air side infrastructure at Maputo International Airport has hardly resulted in facilitation of policy dialogue, only preparation of an O&M plan[74]

[73] This project was cancelled prior to disbursement.

[74] TA to "Aeroportos de Mozambique (ADM)" within the scope of the Maputo Airport project established that a way to make ADM financially sustainable would be to reduce the number of internationals airports in Mozambique. The government has announced recently an intention to reduce the number of international airports in the country to three compared with the current seven. It may be argued that this is a contribution to policy dialogue

3.2 EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
▪ The blending projects examined aligned with EU policies for support to transport and WATSAN. That being said it seems that stated opposition to support of projects which encourage burning of coal (in energy generation) has been put aside by EIB in support to the rail component of the Beira Corridor Project (Sena Line) the viability for which depends on bulk movement of low-quality anthracite. Also, increasing use of the Beira Port for export of coal suggests similar environmental concerns. Potentially there would be similar concerns in EIB consideration of support to upgrading of the Ressano Garcia – Maputo rail line. (JC 2.2; interviews with IFIs, EUD, MRGP, national partners). ▪ All blending projects examined aligned with national sector and overall national poverty alleviation and development strategies. (JC 2.3; interviews with IFIs, EUD, national partners).

Hypothesis	Evidence
Project selection and approval aligned with national policies	Confirmed. In all cases blending projects were fully compliant with national policies (and IFI policies)
Sufficient training was carried out	Not confirmed. Training was not a significant component of TA (which concentrated on project implementation) whilst only limited institutional strengthening was intended.
IFIs and EUDs were clear on criteria	Not confirmed. Although there was claimed to be close coordination between EUD and IFIs, with sharing of information, in practise the EUD was little involved in detailed project preparation. However, EUD did comment upon the request for an ITF grant but lead donors then processed this request with BXL and EIB (Luxemburg).

3.3 EQ3 Financial Efficiency

Main findings in bullet points (JC & source of information in brackets)
▪ Due to turnover of personnel at EUD, AFD, EIB or national partners it was not possible to ascertain how the sizes of grants or relative propositions of non-grant financing were established between the different IFIs and national partners. (JCs 3.1, 3.2 & 3.3; interviews with IFIs, EUD, national partners) ▪ IRS was applied (in the case of the Beira Corridor project) in order to ensure a concessionality level of 35%. There is a perception that whilst investment grants have contributed to a moderate degree in increasing financial resources available for a project, IRS has contributed to a significant degree (JCs 3.1, 3.2 & 3.3; project documentation).

Hypothesis	Evidence
Assembling the financial package is pragmatic as well as grant driven	Confirmed – there is no evidence of application of specific guidelines or criteria beyond the concessionality limits and 50% limit on EIB funding (although none of the project partners interviewed were involved in the preparation of these projects).
Target leverage levels should be implicit in grant request.	Not confirmed. There is general consensus that, given the pragmatic (or opportunistic) methods of assembly in the financial package, leverage levels are not an accurate measure of effectiveness.

3.4 EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
▪ Instruments of grant (for consultancy services & TA), IRS and investment grant appear to have been applied appropriately. (JCs 4.1 & 4.2) ▪ The process of project identification and preparation appears to be curiously ad hoc/informal. MRGP is the only dedicated facility for identification and 'working up' projects to bankability stage and as such was the product of (predominantly) DFID grant funding. (JC 4.1, interviews with IFIs, EUD, MRGP, national partners). ▪ All partners report benefits of consultancy services and TA provided under grant funding (mainly for feasibility studies, detailed design and supervision). TA (and IRS) was identified as having high value in contribution to blending projects (JCs 4.1 & 4.2; interviews with IFIs, EUD, national partners).

Hypothesis	Evidence
TA partner owned and demand led.	Confirmed. The grant funded TA was largely engaged on technical matters for furtherance of project implementation (e.g. studies, design, supervision) and to a lesser extent on procurement.
Partner informed and took part in the choice of instrument.	Not confirmed. National partners were (and are) not well informed in the blending concept and made little contribution to choice of investment (which seems determined by the lead financing partner).

3.5 EQ 5 Policy Reform

Main findings in bullet points (JC & source of information in brackets)
▪ No blending projects were instrumental in policy reform, all being implemented in a context of existing national and EU policies. Blending projects were perceived as having only low degree of leverage in policy reform (JC 5.1, 5.2 & 5.3; interviews with IFIs, EUD, national partners) ▪ MWSP was undertaken in the context of the Mozambique National Water Sector Development Programme and is subject to a code of conduct signed by GOM and sector donors in 2008. All financing partners accepted the principle of alignment with national budgeting and budget execution procedures (except for public procurement and auditing requirements were in line with IFI procedures). Management contracts between FIPAG and small private operations are governed by national laws (JC 5.1, 5.2 & 5.3; interviews with IFIs, EUD, national partners) ▪ Maputo International Airport concentrated on purely operational (safety) issues apart from allocation of part of TA grant resources for development of a more appropriate financial model for ADM (JC 5.1, 5.2 & 5.3; interviews with IFIs, EUD, national partners) ▪ Beira Corridor Project was prepared in compliance with the GOM Action Plan for Reduction of Absolute Poverty. The project was expected to have a catalytic impact on growth, open the Zambezi valley to private sector investments, reduce transport costs, restore household livelihoods and promote regional integration. Although a number of policy issues were highlighted by the misadventures during implementation (e.g. role and establishment of concessions, role of government, tariff structures) there is no evidence that the project partners were directly involved in resultant dialogue concerning lessons learned or policy reform. Lessons learned included: Design – regulation. level of government shareholding in concessions, separation between rail operations and infrastructure management, inter-modality and integration; Implementation - IFI technical supervision works and capacities, due diligence and additional studies, M&E (JC 5.1, 5.2 & 5.3; interviews with IFIs, EUD, national partners)

Hypothesis	Evidence
Blending usefully complemented EU policy-related work	Confirmed. The blending projects were introduced into a policy landscape that had already been the subject of dialogue between GOM and the sector advisory group. The IFIs with national representation were already represented in the advisory groups. EIB did not directly participate in such dialogue although EUD was represented in all sectors.
Blending and BS together are a more powerful function of change than either alone.	Not confirmed. Although the logic of such national strengthening is accepted the national perception is that a blending project is simply 'another project' separate from BS. The major example of a 'ground breaking' project was the Beira Corridor rail component which was expected to catalyse private sector investment in the rail sub-sector but, the experiences of the project, including dismissal of the concessionaire, arguably had the opposite effect on potential private sector investment.

3.6 EQ 6 Project Quality

Main findings in bullet points (JC & source of information in brackets)

- Three blending projects have been examined which have gone forward to implementation. Two projects demonstrate thorough preparation (including feasibility studies and detailed designs) that have enable construction of works to successfully go ahead (ie Maputo International Airport (MIA) and Maputo Water Supply Project (MWSP)) whilst the third project had considerable problems arising from project preparation exacerbated by other issues – this project is considered separately below (JC 6.1; interviews with IFIs, EUD, national partners; scrutiny of project documents)
- Projects scrutinised have been compliant with national regulations and international norms as regards environmental and social impact assessments whilst procurement procedures have been compliant with IFI requirements (JC 6.2; interviews with IFIs, EUD, national partners; scrutiny of project documents)
- Supervision of contractors for MIA and MWSP has ensured adequate construction quality (some MIA works are still ongoing at the time of writing) (JC 6.3; interviews with IFIs, EUD, national partners; scrutiny of project documents)
- Operations and maintenance plans have been prepared for MIA and MWSP although adequacy of budgetary planning is, as yet, unproven. In this respect the scope of consultancy serviced by the grant component of MIA was extended to review and preparation of financial plans for ADM. It should also be borne in mind that the safety deficiencies being remedied by the MIA blending project arose, in part, from maintenance neglect and operational shortcomings (JC 6.4; interviews with IFIs, EUD, national partners; scrutiny of project documents)
- Design issues were fundamental for subsequent implementation problems for the Beira Corridor Project (rail component). The project was pivotal to the WB CAS for Mozambique (EI support came in later when high cost over-runs became obvious) which was the first joint effort by IDA, IFC, MIGA and other partners. PDOs were considered realistic and aligned to national policies (eg PARPA). Alternative project designs were considered, all including a concession as the point of engagement with the private sector, a phased approach being finally selected (ie phased rehabilitation of the Sena rail line but a single concession in which the concessionaire was responsible for upgrading both the Sena and Machipanda rail lines). However, insufficient data was available to back up assumptions regarding expected increases in forestry and agricultural goods and expected coal transport. It was subsequently concluded that there was no understanding of the basic drivers for a successful rail business model. The project was optimistic about the potential for private sector participation but few bidders expressed interest. The winning consortium had national and regional consultancy experience but no proven experience running successful rail operations. The shareholding structure (51% concessionaire, 49% CFM as principal) meant that the principal had little or no leverage on major decisions whilst the role of CFM was unclear (regulator, policy maker, client, operator). Given that the concessionaire was trying to negotiate a coal tariff with mining firms at the same time that the same mining companies were negotiating mining concession agreements with GOM there was no incentive for the mining companies to progress negotiations for rail access with the concessionaire as their clear advantage was to work towards taking over the rail line operations and thus combine the mining and rail concessions (which is the situation today). Also the remit of the Independent Engineer was, in the project design, limited to providing technical opinion but without any authority to instruct remedial action. This advice

was consistently sound, giving warning of problems, but it was inexplicably ignored by the concessionaire whilst CFM was powerless to insist on adoption of such measures. Going forward from such project design shortcomings, poor project implementation and operations management, poor HR negotiations and poor business skills all contributed to mistrust, undermined the relations between the concessionaire, CFM and GOM and led to the eventual termination of the concession agreement (JC 6.5; interviews with IFIs, EUD, national partners; scrutiny of project documents)

Hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages in the project cycle.	Not confirmed. In Mozambique there are few projects implemented purely by national institutions. The great majority are either donor-funded or purely private sector investments. From these projects examined by the evaluator the level of project quality is very similar to those blending projects examined. No evidence regarding O & M (of blending projects) but from information received, adequate provision has been made (although there is a history of deficient maintenance of infrastructure in Mozambique).
In comparison to what other modalities (and why) does blending (not) deliver: ▪ greater sustainability ▪ greater affordability (to beneficiaries) ▪ better viability/rates of return (to IFIs) ▪ better impacts (on poverty alleviation) ▪ more focus on the needs of vulnerable groups	Partially confirmed. No evidence was examined that blending projects deliver better sustainability, affordability or viability than conventional/historical projects. The Beira Corridor (rail component) project made indirect claims regarding poverty alleviation by way of improved mobility of populations along the line plus creation of jobs and new businesses. However, the main beneficiaries were identified as the mining and agricultural sectors and GOM (by way of revenues from a more effective transport system). In reality there is little room for freight traffic from other sectors such as agriculture, timber or granite, nor is there sufficient capacity to accommodate other traffic that might have been redirected from roads. There is very little provision of passenger transport services. On the other hand, MWSP did deliver increased water supply to urban and peri-urban areas of Maputo.
EUDs are (not) directly involved in all stages of the blending cycle.	Confirmed. EUD is not the lead on any blending projects and visibility is less than the lead agency although EUD do comment upon application for grant funding made by the lead agency (with reference to the long period of time needed for EU approvals/decision making according to the lead agency interviewed).
IFIs have (in) adequate resources for effective policy dialogue.	Confirmed – agencies with in-country representation have the presence and resources to participate in policy dialogue (and such participation is compliant with dialogue and coordination undertaken by the sector working group of donors). IFIs without in-country representation do not have the resources to participate fully in such dialogue.
IFIs have (in) adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle (including response to non-delivery of commitments).	Partly confirmed. The earliest blending project i.e. Beira Corridor rail component was characterised by serious failings of due diligence during design and, especially, during implementation by IFIs, the leaders of which had no in-country technical representation. More recent projects exhibit better due diligence. That being said IFI protocols are all compliant with international norms even if not consistent among themselves. The assumption that blending ensures that national partners live up to their commitments appears to be the assumption that responsibility will be taken to repay loans.
There are (in) consistent policies and quality requirements between different IFIs and the various EU investment facilities.	Not confirmed. Development policies are similar across all IFIs and in most cases, national policies are consistent with international norms (most having been drafted by TA in accordance with international norms).
That potential beneficiaries (i.e. partner governments and institutions and EUDs) do (not) understand the differences and	Partially confirmed. National partners have only a limited understanding of blending as a concept and most interviewees perceive blending as less advantageous than 'traditional' pure grant projects. EUD clearly appreciates the differences and potential

potential benefits of blending in comparison to other financing modalities.	benefits of blending but expresses a need for significantly more detailed training in operational aspects of blending.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation.	Not confirmed. Emerging problems were not addressed until a very late stage in the Beira Corridor Project (rail component).

3.7 EQ 7 Finance Barriers

Not applicable for blending projects examined in Mozambique.

3.8 EQ 8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
▪ There is little EU visibility in the project examined. Apart from reference to all financing partners in project documentation, there is a common perception of 'ownership of visibility' by the project lead agency (eg MIA is perceived as an AFD project) (JC 8.3; interviews with IFIs, EUD, national partners) ▪ In all projects the grant component has financed consultancy services for feasibility studies, design and supervision. There has been no establishment of PMUs as such (with the exception of MRGP which operates as a de facto PMU for preparation of blending projects – see Annex E) (JC 8.2; interviews with IFIs, EUD, national partners; scrutiny of project documents)

Hypothesis	Evidence
Preparation is time consuming but leads to better projects.	Not confirmed. In Mozambique there are few projects implemented purely by national institutions. The great majority are either donor-funded or purely private sector investments. From these projects examined by the evaluator the level of project quality is very similar to these blending projects examined. No evidence regarding O & M (of blending projects) but from information received, adequate provision has been made (although there is a history of deficient maintenance of infrastructure in Mozambique).
Management costs were inferior to pure loans.	Not confirmed. The existence of multiple players increased time and transaction costs especially of national partners and, to a lesser extent IFIs (with comment upon the long period of time necessary for EU decision making).
Dissemination of knowledge has led to visibility.	Not confirmed. No evidence examined of a link between dissemination and visibility.

3.9 EQ9 Results.

Main findings in bullet points (JC & source of information in brackets)
Mozambique Backbone Transmission System Project Grant operation for consultancy services to start-up of new entity to handle public shares in power mega-projects – support cancelled prior to disbursement Maputo Water Supply Project (leverage ~3) The project has three objectives: increasing water production and treatment capacity, reducing losses from 56% in 2007 to 41% by 2011 and increasing distribution of potable water in poutlying areas of Maputo (and Matola) for 600000 persons (pursued through leasing contracts with small private operators receiving a start-up subsidy). Project implementation is by FIPAG which coordinates activities of all project partners as concerns disbursements and monitoring. Social benefits include improved services to populations currently served, extension of services to areas not previously served and reduction of cholera and other water-borne diseases. Maputo International Airport (leverage ~30)

Works are still ongoing – the project aims at rehabilitation and improvement of MIA air-side infrastructure (runways, taxiways, aprons and ground lighting including safety improvements – replacement of ground lighting and repairs to surface asphalt, routine and preventative maintenance to pavements, aprons and taxiways, relocation of domestic terminal and cargo aprons and increasing structural capacity.
Beira Corridor (leverage –grant only ~21.5; including IRS as grant ~5.5)
EIB investment loans for the rail component (€42M) and the port component (€23M) together with ITF IRS (€29M). The rail component complements initial WB financing for the rehabilitation of the Sena and Machipanda rail lines and effectively covers huge cost over-runs that emerged during implementation. In terms of achievement of PDOs (ie improved rail system to support economic growth through regional integration and connectivity of areas along the Zambezi valley to the Port of Beira) these were not achieved. The Sena line, whilst limited operationally, was delivered two years late requiring significant further work to be able to carry current traffic safely and sustainably (this work is currently ongoing). In 2011 less than 1/3 of the anticipated traffic was being carried whilst the condition of the Machipanda line was worse than when the project started. Most international traffic still uses rail transport to Durban instead of the shorter route through Mozambique. Institutional strengthening was not well articulated and had no significant impact upon CFM institutional capacity to manage public-private partnerships and has not enhanced GOM/CFM ability as a savvy public sector client.

Hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies.	Confirmed – with the exception of the Beira Corridor Project (Sena rail line component) project designs were of good quality although identified benefits tended to be confined to the physical outputs of the project (e.g. length of piping laid, sq. m of taxiway rehabilitated).
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated and/or mitigating measures were insufficient.	Confirmed – there was little real risk assessment carried out for any of the blending projects examined. Combined with poor M&E during implementation, this was a major problem for the Beira Corridor Project. However, most projects are subject to seemingly inevitable delays in implementation which suggests either unrealistic design or failure to mitigate problems arising during implementation/construction of infrastructure.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects.	Partially confirmed. There was no reference to overt poverty alleviation in the case of Maputo Airport or Beira Corridor (port component) or the Mozambique Backbone projects, which concentrate on macro levels of economic development with an assumed 'trickle down' impact upon poverty. MWSP has direct poverty alleviation resonance in improving access to water supplies in the Maputo Metropolitan area (which was largely delivered) whilst the Beira Corridor (rail component) made unrealistic claims regarding contribution to economic development and poverty alleviation, many of which were undelivered.
Monitoring of results was uneven across projects and IFIs and often insufficient.	Partially confirmed. Monitoring was carried out by the project lead although monitoring practices vary between IFIs and other partners. Monitoring of implementation was reported to be satisfactory in the case of MWSP and Maputo Airport whilst Beira Corridor (rail component) suffered *'a failure in the WB system for monitoring progress and taking appropriate action'*. (ICR 2154, WB, June 2012).

Annexes

Annex A: Persons Met

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Annex B: Documents Consulted

EU-AITF- 2008-04 Beira Transport Corridor Project

- Development credit agreement 2065MOZ
- Implementation, Completion & Results Report – ICR2154
- Implementation, Completion & Results Report – No. 17466
- Staff Appraisal Report – CR2065MOZ: No. 7709-MOZ
- EIB OPS B – Project Progress Reports 2014, 2013, 2012
- EIB Proposal from Management Committee to Board of Directors March 2009
- EU-AITF Application for IRS: EIB – 2008

EU-AITF-2011-22 Maputo International Airport

- AFD – Request for Approval of ITF grant for TA
- Preliminary condition assessment and budget estimate for upgrading of outside infrastructure at Maputo Airport: AFD-SEED/SS1 2010
- AFD – Note d'étaillée de presentation d'opération 2013
- Eu-aitf. Semi-annual monitoring sheet various to 07/2014

Maputo Water Supply Project – I

- AFD: Water and Sanitation: Case Study – Access to water for the poor in peri-urban areas of Maputo
- EIB – Maputo Water Supply Project www.eib.org/infocentre

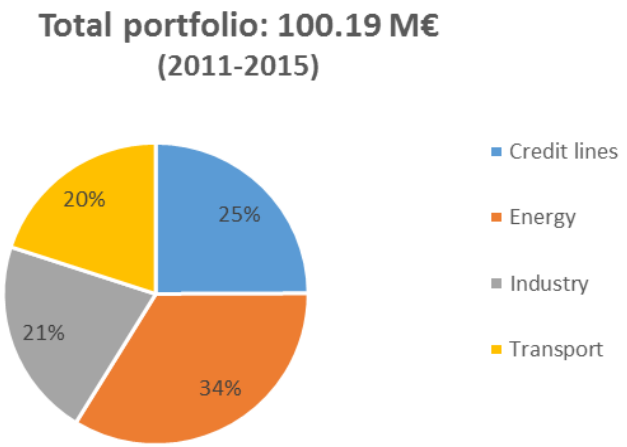
MRGP – Mozambique Regional Gateway Programme

- Introduction, Scope, Structure, Outputs, Outcomes

Mozambique Backbone Transmission System Project

- EU-AITF information sheets www.eu-africa-infrastructure-tf.net

Annex C: EIB portfolio in Mozambique



Source: ADE, based on www.eib.org ("Finance contracts signed - Mozambique"), 31st of March 2016.

Annex D: Survey for Final Beneficiaries

Project identification (title, status, etc.)	**Maputo Water Supply Project**
What is your involvement/role in this project?	
FIPAG – Fundo de Investimento e Patrimonio do Abesticimento de Agua Project implementation	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Yes – contribution to poverty alleviation, better quality of life, health and environmentally sustainable development
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Yes – increased water production and treatment capacity; reduced wastage; distribution of drinking water to peri-urban areas not previously served
Who are the people benefiting the project?	600000 persons in outlying areas with target of extension of service by 2014 to additional 200000 persons and setting up management system for 400 standpipes serving poor areas (additional 200000 persons)
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes – FIPAG management capacities supported by TA. The project contributes to FIPAG's overall financial sustainability and thus to other cities under FIPAG responsibility
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Sustainability and affordability by contribution of low cost financing, regulatory policy (regarding tariffs and institutional autonomy), regulated private sector participation on service provision and involvement of NGOs at point of delivery
Have any (temporary and permanent) jobs been created?	Yes – in treatment and distribution
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Communication between project partners	
Do you have any other comments?	
If the project had not been implemented extension of services to outlying areas would be blocked and deterioration was expected as existing facilities (eg pump stations) were working beyond design capacities	

Project identification (title, status, etc.)	**Maputo Water Supply Project** **Umbeluzi Water Treatment Plant (WTP), Construction Works.**
What is your involvement/role in this project? Operator, Technical Staff and Management	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Not directly but the project has had an impact in improving social conditions of the beneficiaries: Reducing diseases outbreaks, increasing investments in the area and giving conditions for better construction in the project area.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	During the implementation of the project, there were some delays (3-6 months in total) but none of them was significant.
Who are the people benefiting the project?	The main beneficiaries of the projects are the population of the Districts of Boane, Bello Horizonte, Matola Rio, Tsalala and Catembe.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	The project included training to the ADM staff. It has been replicated to the operator of the Distribution centers and to the WTP staff and the technical skills are being used in the operation and maintenance of the WTP and WDC
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	The main social benefits of the project are: • Reduction in the cholera outbreaks due to the access to clean treated water • Access to clean water and thus reduction in health issues • Reduction in time to collect water and thus more time to dedicate to work • Improvement of the existing and new infrastructure • Attracting more investment to the project area because there is access to water for construction and other economic activities. Regarding environmental issues, the most important aspect of the project is on the water extraction from the Umbeluzi river. According to the Environmental Impact Study (EIA), pumping cannot exceed more than 11,000 M^3/h. Due to the drought, some of the pumps are only operating a reduced capacity.
Have any (temporary and permanent) jobs been created?	Most of the temporary jobs were created during the construction stage of the project. Presently, 2-3 permanent jobs have been created in the newly created WDC.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	No information/no answer
Is there anything that can be improved? Some leaks have been detected in the distribution system and illegal connections have been discovered as well. However, it is estimated that the illegal connections are constituting approximately 1% according to a study performed by ADM at Boane. There have also been identified some people that are legally connected but manage to manipulate the water meters and to have additional illegal connections.	
Do you have any other comments?	

The total number of connections is estimated at 240,000 households. With the entrance in operation of Section 3 the number of connections increased from 100,000 to 240,000 currently registered. There are 11 Distribution Centers, 5 of these are new. Service time is actually 14 – 18 hours/day. The WTP is presently operating at 55% of its installed capacity since section II is not functioning due to it is under modification.

Project identification (title, status, etc.)	**Beira Corridor Project**
What is your involvement/role in this project?	
Cornelder – concessionaire for Beira Port (ex-Project Manager CFM)	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Project referred to poverty reduction objectives but was more at macro levels targeting economic development and regional integration
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	No – many delays and the project was rescued by the late entry of EIB after WB, IFC and CCFB could not come up with additional funding to cover increasing cost over-runs
Who are the people benefiting the project?	Coal mining firms (in Tete) and Beira Port
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Outputs being used but further CFM investment is going ahead on the Sena rail line. Currently movement of 5Mt/year. Needs investment of USD120-200M to upgrade line to carry 20Mt/year. Coal production over 5Mt/year likely to be carried on refurbished Nacala line (to Nacala port)
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Rail links improved together with dredging of port should lead to more investment in the port ie sugar terminal, minerals and new quay (>USD200M investment planned)
Have any (temporary and permanent) jobs been created?	Major retrenchment of CFM personnel (~15000) with WB retrenchment programme
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	Movement of coal has not entirely crowded out movement of general goods but only very limited passenger services (twice per week – Beira/Moatize; Beira/Maromeu)
Is there anything that can be improved?	
Dredging required constantly in Beira port. Existing dredging services not working well (3 dredgers – limited availability)	
Do you have any other comments?	
WB monitoring of implementation did not flag increasing problems. Warnings of Independent Engineer were ignored	

Annex E: Mozambique Regional Gateway Programme (MRGP)

MRGP (regional component) is a de facto PMU for identification and preparation of blending projects up to 'bankability' stage. These descriptive noted are based upon MRGP programme documentation. Notes on individual MRGP support interventions are based upon interviews with the MRGP Team Leader Leon Gouws.

The Mozambique Regional Gateway Programme (MRGP) is a five-year programme funded jointly by DFID Mozambique and DFID Southern Africa.

The objective of the MRGP is to contribute to the improvement of the Southern African transport (roads, rail and ports), energy and ICT regional infrastructure network that uses Mozambiue as a transit route for international trade. The programme aims to positively impact regional and international trade, increase employment and reduce poverty along the main corridors leading to Mozambique.

Scope

Substantial private sector investment in mining in Central Mozambique in the last few years has created an opportunity for expanding the existing transport and energy grids in the affected regions, Along with improvement in the transport regulatory environment, multiple users, including those from Mozambique's landlocked neighbours, will benefit from enhanced infrastructure services and the resulting efficiencies.

The MRGP has two components:

The **Mozambique National Component –** focussed on improving infrastructure along the main trunk corridors of Beira and Nacala by strengthening the work of the Ministry of Transport and Communications regarding transport policy, planning and regulations.

The **Regional Component –** which aims to ensure that transport corridor developments translate into trade benefits for the landlocked neighbouring countries, Malawi, Zimbabwe, Zambia and Botswana by supporting strategic interventions that decrease transport costs and improve the efficiency of the transport corridors.

Structure

In **Phase One**, (year 1 to 5) the emphasis was placed on facilitating technical assistance. The focus was on improving transport infrastructure along the main trunk corridors of Beira and Nacala by strengthening transport policy, planning and regulations in the Government of Mozambique.

Phase Two, (years 4 and 5), expected to include interventions to stimulate investment in agriculture, manufacturing and services along the corridors by means of promoting business linkages, developing pre-feasibility and feasibility studies and preparing project finance documentation as well as through strategic infrastructure projects.

The MRGP is funded by DFID to the tune of £12,350,000 for Phase One (years 1 – 5) and £10,000,000 for Phase Two (years 3-5), of which £13,500,000 are allocated to the Mozambican component and £8,850,000 to the regional component.

MRGP Regional Component

The planned outputs for the regional component of the programme include:

- Studies and projects to support the improvement of key transport infrastructure links that will facilitate and improve access to landlocked countries to the roads and railways of the Beira and Nacala Corridors.
- Project finance preparation for selected projects in order to get these to a bankable stage.
- Coordination of donor assistance in order to establish and strengthen a common regulatory environment.
- Infrastructure project financing: funding allocation for capital investment in project financing.

Outcomes

- Lower transport costs along the Beira and Nacala corridors.
- Increased transit and cross-border trade between Zambia, Zimbabwe, Malawi and Botswana through Mozambique.
- A stronger regulatory and institutional transport framework in Mozambique.
- Improved co-ordination between the Tripartite and Mozambique in order for landlocked countries to benefit from transit trade through Mozambique.

Noted on individual MRGP interventions

Machipanda rail line rehabilitation (Mozambique)

MRGP arranged for feasibility study and detailed design (RFP prepared in cooperation with EIB). Coverage included technical, economic, environmental and poverty alleviation issues. Budget DFID (USD 890,000) CFM (USD 200,000). EIB undertook pre-appraisal mission. AFD (with DFID grant) arranged for due diligence for loan contribution (i.e. examination of CFM financial model). EIB sunsequently requested by CFM to consider support to the Ressano Garcia line (see below).

Beira Port Master Plan (Mozambique)

DFID grant for master plan (for future planning by CFM-port seen as a 'pinch-point' – if Panamar vessels can be accommodated, this would also involve planning at Maputo and Nacala ports). Also involves planning interface between Beira port and municipality.

Dondo Dry Port (Mozambique)

DFID grant for feasibility study and detailed design. IFC considering implementation.

Blantyre-Sena Rail Line (Mozambique/Malawi)

DFID grant for feasibility study, detailed design and climate change resilience guidelines (found to be unfeasible).
Southern section – serious geological issues.

Ressano Garcia – Maputo rail line (Mozambique)

DFID grant for feasibility study (intention to unblock deadlock among different agencies [i.e. TFR, Transnet, CFM] for upgrading of functional rail line). Possible interest in financing of implementation by EIB, AFD, IPSA and private sector) – pre-appraisal stage.

Railway gauge study (Mozambique)

DFID grant for study of policy issue including technical, economic and financial arguments for possible change of gauge from Cape gauge to Standard gauge.

ICT (Mozambique)

DFID grant for study on use of TV 'white space' along transport corridors (of interest to Microsoft and Google).[75]

Lobito Corridor (Angola/DRC/Zambia)

DFID grant for scoping study (Kolwezi-Dilolo – Lobito) – development of feasibility of corridor development by private sector funding.

Power generation and distribution

Electricity generation and distribution projects were removed from MRGP scope (although potentially a major problem with great potential for blending).

[75] By comparison fibre-optics are expensive to install and connect.

Case Study Note – Namibia

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1. Introduction and context

1.1 Development cooperation between Namibia and EU

Namibia has a stable democracy and macro-economic management whilst remaining one of the most unequal societies in the world with land ownership issues, high unemployment and HIV/AIDS rates, poor educational outcomes and a bloated civil service bureaucracy.

Namibia is also a transit country for landlocked neighbouring countries (Zambia, Zimbabwe, Botswana and the hinterland of DRC) with resulting stress on transport infrastructure (roads, rail, ports). Other infrastructure is also under pressure – energy (as Namibia is not self-sufficient in terms of electricity generation and thus dependent upon import of power from the Southern Africa Power Pool (SAPP)) and water resources (as the country is largely arid with few perennial rivers on the northern borders with Angola and Zambia, as well as on the southern border along the Orange River in the south).

EU cooperation with Namibia goes back to the 7th EDF (1992) concentrating on focal sectors of agricultural/rural development, health and human resources. These focal sectors continued through 8th EDF and under 9th EDF (2002) support concentrated on rural poverty reduction and education. 10th EDF priority areas are rural development (€59M) and human resources (€42M) with support to non-priority areas (€28M) covering maternal and child health, civil service reform and support to civil society and parliament, capacity development and technical assistance as well as public finance management reform.. 11th EDF support (2014-2020) has focal sectors – Education and skills (€36M) and Agriculture (€20M) plus other support to civil society (€6M) as well as capacity development and technical cooperation (€6M). Other assistance to Namibia includes EU MS which, together with EU provided, >70% of ODA which, in the period 1990-2004 totalled USD 2.4B. In addition EIB has signed loan agreements totalling €177M (one of the highest per capita lending ratios in ACP countries). Most financing has been applied to infrastructure (water, power, telecom, transport, ports, municipal services) plus support to SMEs.

1.2 Methodology and projects selected

Namibia was selected for a field missions because there are early blending projects completed, two of which were grant funded support to initial studies which are anticipated to lead to capital works (Walvis Bay Port and transport sector), the third being financing of major infrastructure works (Caprivi Interconnector). Also two further potential blending projects are at identification stage and the procedures for potential project preparation have been examined.

The country visit in February 2016 which was originally programmed for December 2015, started with a review of desk-based information and finalisation of a list of relevant stakeholders, most of whom were interviewed including EUD personnel, partner financing agencies and national institutions and collaborators. Some respondents were contacted by telephone (KfW, Frankfurt and NamPower) – Annex A lists all contacts/persons met or

otherwise interviewed. A structured list of questions and identified information gaps was used as a basis for interviews. It was not possible to undertake 'formal' field visits to the only identified blending project where construction has been completed (i.e. Caprivi Link Interconnector)[76] and a limited survey of beneficiary viewpoints has been undertaken (Annex C).

The field visit thus focussed on the following completed projects:

1. EU-AITF-2008/01: Caprivi Interconnector: Energy: Namibia, Zambia: €306,000,000: EU-AITF-2008/01-IRS/01: IRS for the Caprivi Interconnector project: (NamPower, AFD, KfW)
2. EU-AITF-2009/16: Expansion of Port of Walvis Bay; Transport: Namibia: €200,000,000: EU-AITF-2009/16-TA/01: Expansion of Port of Walvis Bay Container Terminal – TA: (NamPort, AFD, KfW)
3. EU-AITF-2010/13: Namibian Transport Master Plan: Transport: Namibia, South Africa, Botswana, Angola, the Democratic Republic of Congo, Zambia, Zimbabwe: EU-AITF-2010/13-TA/01 Integrated Transport Master Plan for Namibia (Ministry of Works and Transport, Road Administration, TransNamib).

To a lesser degree the following 2 projects, at identification stage have been considered:

4. EU-AITF-2014/16: Namibia Biomass and Solar Power: Energy, Namibia: €304,600,000: EU-AITF-2014/06-TA/01: TA for the feasibility studies for the development of biomass and CSP power plants.
5. EU-AITF-2010/09: Lower Orange River Hydro Electricity Power Scheme (LOHEPS): Energy: Namibia, South Africa: €250,000,000: EU-AITF-2010/09-TA/01: Preparatory activities for the LOHEPS project.

2. Conclusions

2.1 Strategic Relevance

The completed projects examined all were claimed to have specific challenges to which blending was expected to respond. This was actually the case as regards transport sector projects; however, in the case of the Caprivi Link Interconnector (CLI) an alternative specific challenge is suggested to which CLI has fully responded.

- The Integrated Transport Master Plan for Namibia (ITMP) was expected to facilitate potential investment in transport infrastructure in Namibia (and SADC given that Namibia is a transit country for landlocked neighbouring countries) and has provided a 'shopping list' of potential infrastructure projects mainly in the road and rail sub-sectors. However ITMP has not been endorsed by cabinet and it has been to some extent 'overtaken' by the ongoing preparation of the 'Master Plan for development of an

[76] Construction of expansion of Walvis Bay Container Terminal is going ahead but with AfDB financing, the original European co-financers having withdrawn due to procurement difficulties.

international logistics hub for SADC countries in the Republic of Namibia'. There is as yet, no uptake on identified, prioritised interventions although there are plans to establish a secretariat for actioning of the logistics master plan (after formal GRN approval) to be supported by KfW and JICA. At that stage financing options for investment may be considered.

- Expansion of the Walvis Bay Container Terminal (Economic market and Financial feasibility study for strategic expansion) expected to reduce transport costs in Namibia and neighbouring countries. The study gave options for viable expansion and in principle the financing partners included KfW (lead), AFD, EIB, DBSA & JICA. The specific challenge (ie reducing transport costs in Namibia and neighbouring countries) continues to be relevant although AfDB has stepped in to finance works currently in progress due to the withdrawal of the originally identified IFIs after disagreement on procurement processes for contractor selection.[77] Given that the port capacity expansion will be completed before any of the transport linkage interventions are even started (see above) the specific challenge will remain unresolved.
- The Caprivi Link Interconnector (CPLI) was expected to ensure policy alignment (including issues of social policy and renewables[78]). This is not considered to be completely the case as the project was strategically positioned to improve Namibia's security of power supply (whilst avoiding thermal power generation which was an alternative option to accessing Zambia hydro power) although this was not necessarily the best financial decision (at least in the short term) for Nampower or Namibia. It is suggested that this would constitute a more appropriate specific challenge, a challenge which the project has fulfilled. Project objectives have been delayed due to defective connections in Zambia (and a perennial 'pinch point' in Zimbabwe) but work is currently ongoing (with EIB support) to resolve the distribution line problems in Zambia. Thus, project objectives are delayed rather than denied.

Grant proportions were determined by various considerations although no reference appears to have been made to specified concessionality levels of 35%. Only the Caprivi Interconnector project demonstrates a mixture of loans and grants[79] and the considerations for qualification of the maximum level of subsidy are set out in unusual detail in the Executive Study of the EIB submission to the EU-Africa ITF Executive Committee. i.e.

> ***Amount and Format of subsidy for the Caprivi Interconnector***
> ***Amount***
> *The Net Present Value (NPV) of the economic benefits of the Caprivi Interconnector that accrue to Namibia and the region, but not to NamPower in the form of immediate financial returns, is estimated at EUR 170 million). By choosing to invest into the Caprivi Link, NamPower selects the best economic option, which is not at the same time the best financial option. Consequently, NamPower merits to be compensated for the positive externalities it creates, i.e. theoretically this would justify a subsidy of EUR 170 million.*
> *Nonetheless, NamPower itself has a strategic commercial interest in the project that goes beyond the immediate financial returns reflected in the model. This strategic interest is based on NamPower's expectation that in the long*

[77]). i.e. a single (Chinese) contractor was prequalified which would thus imply a de facto direct award of contract.

[78] i.e. switch from thermal to hydro power.

[79] The studies for the Walvis Bay Container Terminal, ITMP and Biomass and Solar Power Feasibility were grants whilst LOHEPS is at preparation stage (and is understood not to be going ahead at this stage

run it would be able to obtain additional benefits through increased wheeling and trading in the region, which may increase NamPower's IRR from the project[80].
It is difficult to quantify this strategic interest in terms of precise future financial returns to NamPower, since these are dependent on a number of variables. It is therefore equally challenging to precisely quantify the maximum level of subsidy that would be appropriate for this regional infrastructure project. However, given the magnitude of EUR 170 million of positive externalities, the project could arguably merit a subsidy in excess of the maximum subsidy currently available (understood to be EUR 15M) within the framework of the EU-Africa Infrastructure Trust Fund. However, the Financiers (AFD, EIB and KfW) wish to respect the existing EUR 15M guideline which, in the case of Caprivi Interconnector, would represent roughly 5% of total project cost and slightly less than 10% of total economic benefits.

Format

This EUR 15m grant request is submitted with two different disbursement Formats: as a conventional Interest Rate Subsidy (IRS), or as an Upfront Subsidy (UPS) - subject to parallel agreement/clarification by the Executive Committee on the principle of such Upfront Subsidies..

Interest Rate Subsidy (IRS)

Based on the above explanations, the Financiers propose to offer an IRS to the amount of EUR 15 million to NamPower. Such conventional IRS is foreseen under the Trust Fund Agreement. Assuming that this IRS would be paid out over the lifetime of the project, it corresponds to an interest rate reduction of 1,33%. Given that under the Cotonou Agreement an IRS of up to 3% can be granted, this appears to be reasonable.

Upfront Subsidy (UPS)[81]

For reasons detailed in the accompanying Information Note, the Financiers would (also) like to solicit Executive Committee approval for the alternative of disbursing the subsidy in the form of an UPS. This would allow the ITF to have a much larger impact with the same amount of subsidy, as EUR 15 million today is clearly more valuable than EUR 15 million over 20 years. For the purpose of illustration: To have the same financial impact as an up-front payment of EUR 15 million, the IRS would need to be 2,22%, which would cost EUR 25,0 million over 20 years as opposed to EUR 15 million today – EUR 10 million more in nominal terms

Blending has followed on from grant-funding of projects but there is no sense of facilitation of a progression to purely loan-financed projects.

Namibia is economically better placed than many African countries and this status is manifested by relatively smaller value national support programmes by EU-MS and other development agencies The relative strength of NamPower is demonstrated by 65% of financing for the Caprivi Interconnector being raised by NamPower corporate bond.

The blending projects were supportive to and compliant with national sector policies. Caprivi Interconnector Project and the other projects in the energy sectors are fully compliant with national policies. ITMP was intended to produce a strategy for implementation of transport sector policies as a whole and, for the first time examined the interface between the different transport sub-sectors which had previously been considered separately with individual sub-sector policies having been produced for the road, air and maritime sub-sectors.[82] ITMP has not (yet?) been ratified at cabinet level and has been built upon, if not actually superseded, by the ongoing preparation of the Master Plan for an

[80] According to NamPower's model, the current project IRR on Caprivi Link is 6.5% (subsidy excluded and inflation taken into account), which is above the EIB threshold of 5% for projects of this nature, but is still comparatively low.

[81] This decision was the outcome of the AITF Executive Committee meeting in January 2008 which discussed at length UPS for the Caprivi Inter-connector project

[82] There appears to be no national policy for rail transport.

International Logistics Hub for SADC. Either way, both master plans propose prioritised infrastructure investments which may begin to be 'worked up' in the coming years.

2.2 Added value

Blending has been used in a context of established, but limited policy dialogue but there is no evidence of any linkage between budget support and blending. There are a limited number of funding agencies active in Namibia and whilst there is sector dialogue (e.g. with KfW and JICA) there is no budget support in the transport or energy sectors. Given that ITMP was a blending project (albeit a grant funded preparation study) it can be argued that blending has contributed to at least transport sector strategy if not actually to sector policy formulation, as regards consideration of multi-modality.

Coordination between the financing partners is reported to be satisfactory although there are issues. The application of the Mutual Reliance Initiative (MRI) principle and nomination of lead donor (only for the Caprivi Interconnector) reduced the requirement for multiple reports, but problems concerning procurement effectively foreclosed the intended involvement of European IFIs in the capital works for Walvis Bay Container Terminal.[83] Transaction costs were reported to be higher for blending projects for both partner IFIs and Namibian institutions. Reference was made to the length of time required for Africa Infrastructure Trust Fund decision making.

All blending projects examined involved consultancy services but no specific Project Management Units (PMU) were established. For the only project to go beyond preparation of studies (i.e. Caprivi Interconnector) project management was undertaken by NamPower in-house.[84] However, all national institutions interviewed noted capacity increases with the development and implementation of all major projects (however financed). Reference was made however to the problems arising from lack of familiarity with international procurement procedures.[85]

Studies including design (for the Caprivi Interconnector) and socio-economic studies appear to have been of good quality, it is not possible to make comparisons of quality with projects otherwise financed. However, there is some concern expressed about unduly optimistic assumptions which are characteristic of many development projects (not only blending projects). That being said LOHEPS and the Biomass and Solar Power Project studies, whilst concerned with renewable energies have

[83] When the AITF grant for the Economic Market and Financial Feasibility Study for expansion of the Walvis Bay Container Port was approved by AITF it had been agreed in principle that PFC co-financiers for the capital works would include KfW (lead), EIB, AFD, DBSA and JICA (in addition to the grant element for TA). Following a prequalification procedure, only one firm (Chinese) was prequalified thus implying what was in effect a single-source bidding procedure. This was not acceptable to the PFG. NamPort subsequently came to an agreement whereby AfDB stepped in to finance the capital works after receiving authorisation to apply a waiver to AfDB procurement standing orders and whereby the single prequalified firm was awarded the contract. Works are currently ongoing.

[84] The ex-post evaluation notes '*NamPower made institutional and managerial arrangements for the project implementation phase……in a timely and cost-effective way. All aspects…..including procurement, installation of the equipment, supervision and financial control were managed well by NamPower staff*'

[85] See reference to procurement issues – Walvis Bay Container Terminal.

both considered environmental issues in feasibility studies whilst ITMP (and the subsequent Logistic Hub Master Plan) make only generic reference to environmental issues. On the other hand the ex-post evaluation of Caprivi Interconnector noted that *'The project scores high on the control of socio-environmental impacts and risk mitigation, especially during construction. The due diligence procedure of the EMP have enabled NamPower to design and implement mitigation measures.'* This project was however subject to over-optimistic assumptions regarding outcomes for economic and social development, improvements in living conditions and on access to electricity in rural areas. All otcomes were due to less than expected utilisation of the interconnector, in large part due to assumptions of performance of linked distribution networks in Zimbabwe and, especially in Zambia.

The 'pipeline procedures for identification of potential blending projects are opportunistic and depend to a large extent on contacts between individuals in the partner organisations. All projects examined are compliant with national policies and all have been developed as a result of personal contact between individuals in financing partners and national institutions. This process has been effective but obviously pre-supposes a familiarity with blending concepts (which has not been found to be the case in discussions with some transport sector institutions during the field visit).

Communication between financing partners has been reported to be generally good (albeit with reference to delays regarding AITF decision-making) whilst EU visibility is very limited. Communication has been facilitated in-country by the personal contacts noted above, there was virtually no EUD involvement in the identification, 'working up' and implementation of blending projects.

2.3 Results

Projects have not directly targeted the poor although in some cases there is evidence that the projects should have downstream benefits for the poor. There is an assumed 'trickle down' of economic benefits from projects expected to have socio-economic benefits at macro level. More specifically

- Biomass – countering bush encroachment, de-bushing programmes have developmental potential to a) increase agriculture productivity b) develop new value chains c) create new rural employment opportunities whilst improving the national energy supply base.
- LOHEPS, ITMP and Walvis Bay Container Port – only macro-economic benefits (including some employment creation) are identified.
- Caprivi Interconnector – concentrating on national energy security and macro-economic benefits but with regional economic potential which this projects seeks to facilitate by strategic unlocking of the transmission/generation 'chicken and egg' situation[86], the project also intended to use some generated revenues for rural electrification purposes (with potential impacts upon rural socio-economic benefits).

[86] Satisfying a demand for power supply requires two major infrastructure investments – generation capacity and distribution. Either is useless without the other

None of the projects have a scaling up potential as such. However the Caprivi Interconnector has elements of intended facilitation of indirect benefits such as promotion of additional renewable power generation (in Zambia and Zimbabwe) and avoidance of alternative coal-burning generating capacity to satisfy Namibia's evolving needs. The LOHEPS and Biomass and Solar Energy projects similarly encompass renewable energy sources. The transport sector projects (ITMP and Walvis bay Container Terminal) are likely to lead to further interventions (i.e. further phases of port development and multiple rail and road interventions in the land transport network).

Attention has been given to operation and maintenance of completed infrastructure. Longer term sustainability and affordability have been examined and concluded as satisfactory but long term outcomes are not yet available. Projects at preparation stage (LOHEPS, Biomass and Solar Power) and ITMP have simply assumed adequate operations, maintenance and sustainability. Walvis bay Container port expansion (Economic Market Study and Financial Feasibility) concludes financial and economic viability whilst the ex-post evaluation of the Caprivi Interconnector rates sustainability as 'moderately satisfactory' based upon consideration of very high institutional sustainability (NamPower), Technical Sustainability – could not be directly assessed, financial sustainability – questionable, and 'capacity of benefits to last under changing external conditions' – sufficient.

3. Findings across the Evaluation Questions Conclusions

EQ 1 Strategic relevance

Main findings in bullet points (JC & source of information in brackets)
All projects took advantage of provision of the grant remit to enable the blending projects to be developed. ▪ **Lower Orange River Hydro-Electric Power Scheme (LOHEPS)** NamPower had access to AITF funds (EIB lead, AFD) for finalisation of project preparation studies (aerial survey geological drilling, preparation of tender documents and specifications, financial modelling) but these funds were not utilised. DSBA provided N$ 3.5M grant of which ZAR 1.2M was disbursed before this project was put on hold. All other developmental costs were paid by NamPower. (JC 1.1, 1.2, interviews with NamPower, IFIs and EUD); ▪ **Namibia Biomass and Solar Power** TA for feasibility studies was made available by AITF to NamPower (€2.3M) i.e. determination of optimal location, technology and funding structure to implement power station as part of diversified generation and supply mix. EIB lead (JC 1.1, 1.2, 1.3:; interviews with NamPower, IFIs, EUD); ▪ **Namibia Integrated Transport Master Plan** The AITF grant operation financed TA for preparation of the master plan which comprises short term (3-5 years) and long term development plans (5-20 years). EIB lead €0.56M. (JC 1.1, 1,2, 13; interviews RFA, MWT, RA; Burmeister & Partners (Pty) Ltd, IFIs, EUD; ▪ **Expansion of Walvis Bay Container Port** The AITF grant element (KfW lead) €0.4M financed TA for the Final |Economic Market and Financial Feasibility Study. (JC 1.2, 1.3; interviews with NamPort, IFIs, EUD); ▪ **Caprivi Link Interconnector**

The AITF grant element (EIB lead) provided an IRS of 5% - this was actually disbursed as up-front subsidies pro-rata with IFI partner disbursements. See also above Conclusions 2.1 strategic relevance. (JC 1.1, 1.2, 1.3; interviews with NamPower, IFIs, EUD)

Hypothesis	Evidence
Projects posing special challenges requiring blending will continue to grow	Partially confirmed. The identified special challenges for ITMP (facilitation of potential investment in transport infrastructure in SADC and for expansion of Walvis bay Container Terminal) are confirmed as valid. However, the identified specific challenge for Caprivi Interconnector (to ensure policy alignment) is not confirmed – an alternative special challenge is suggested (to encourage and facilitate renewable energy generation and avoid thermal power generation whilst increasing supply security in Namibia in SAPP as a whole).

EQ 2 Project alignment

Main findings in bullet points (JC & source of information in brackets)
• The blending projects examined are aligned with EU policies for the transport and energy sectors all proposed projects having strong regional themes (corridor access to Atlantic ports for landlocked countries; strengthening of SAPP and energy supply security plus encouragement of increased use of renewable generation and avoidance of alternative thermal power generation). (JC 2.1, 2.3; interviews with IFIs, NamPower, NamPort, RA, MWT, RFA, EUD). • The blending projects examined were all aligned with and supported national policies for transport and energy sector. AITF grant support in preparation of ITMP has provided a master plan for short and long term investment (mainly road and rail subsidies) which has been developed further with preparation of the Master Plan for Development of an International Logistics Hub. (JC 2.1, 2.3; interviews with IFIs, NamPower, NamPort, RA, RFA, MWT, EUD).

Hypothesis	Evidence
Project selection and approval aligned with national policies	Confirmed. All blending projects were fully compliant with national and wider regional policies, and with IFI policies. ITMP involved the preparation of a development strategy for the national transport sector policies. The reason that intended European IFI financing of the expansion of the Walvis Bay Container Port did not go ahead was due to procurement procedures not being compliant with IFI guidelines.
Sufficient training was carried out	Not confirmed. Training was not a significant component of TA (which concentrated on studies) although there were some national consultancy inputs[87]. Only limited institutional strengthening was intended (and in the case of Caprivi Interconnector, NamPower originally did not need any such institutional strengthening albeit that the selected technology was used for the first time in Africa and thus was not familiar to NamPower).

[87] Eg ITMP was prepared by Egis International (France) in joint venture with Burmeister & Partners (Pty) Ltd (Namibia)

IFIs and EUDs were clear on criteria	Not confirmed. EUD has had little or no involvement in any of the projects which have all been carried forward by direct contracts between the lead, IFI and national institution KfW with in-country representation (and to a lesser extent) EIB with regional representation in Pretoria are well placed to facilitate such contracts. IFI procedures have been subject to many changes since 2007.

EQ3 Financial Efficiency

Main findings in bullet points (JC & source of information in brackets)
• Due to turnover of personnel at EUD it was not possible to ascertain further insight on how grants were quantified, beyond consultation of available documents (EUD also declined to complete the circulated questionnaire on the grounds of lack of familiarity and involvement in blending projects). Contact with KfW personnel in Namibia at the time of project preparation and now in Frankfurt gave valuable information and 'back stories'. (JCs 3.1, 3.2 & 3.3; interviews with KfW, EUD) • IRS was applied in the case of the Caprivi Interconnector – this issue is discussed in greater detail above in 2. Conclusions 2.1 Strategic relevance (JCs 3.1, 3.2 & 3.3; interviews KfW, NamPower).

Hypothesis	Evidence
Assembling the financial package is pragmatic as well as grant driven	Confirmed – there is no prescriptive following of guidelines in the case of the Caprivi Interconnector Project – in fact it was noted that the project could *"arguably merit a subsidy in excess of the maximum currently available…."* – see above 2. Conclusions 2.1 Strategic relevance.
Target leverage levels should be implicit in grant request.	Confirmed. The logic of determination of the IRS/UPS is explicitly set out in the EIB submission to the EU-Africa ITF Executive Committee. Interestingly no mention is made of leverage. See above.

EQ 4 Instruments

Main findings in bullet points (JC & source of information in brackets)
• Instruments of grant (for consultancy services), and IRS/UPS appear to have been applied appropriately – although it seesm that the UPS which was preferred could not be applied. (JCs 4.1 & 4.2) • No TA (AITF grant) was supplied for the Caprivi Interconnector project as NamPower institutional capacity was acknowledged to be adequate for project management. This is an example which indicates that blending has been careful to ensure that PMUs are not imposed where there is no need. (JC 4.1; interview NamPower, IFIs) • The process of project identification and preparation has been a direct result of personal contacts between individuals in national institutions and IFIs – KfW (national representation) and EIB (Pretoria). EUD has not been directly involved. (JC 4.1; interviews with IFIs, national partners). • All partners report satisfaction with the outputs of the consultancy services provided under grant funding (feasibility and other preparatory studies). IRS/UPS was identified as having value in contribution to the financing package for the Caprivi Interconnector (all the more

so given the shortfall in expected revenues (which should be remedied following investment in the Zimbabwe and Zambia networks). (JCs 4.1, 4.2; interviews with national partners)

Hypothesis	Evidence
TA partner owned and demand led.	Confirmed. The grant funded TA was engaged on technical studies for project preparation. TA was not used for PMU or procurement.
Partner informed and took part in the choice of instrument.	Confirmed. The choice of instrument for TA for studies (i.e. AITF grant) was obvious whilst NamPower was an informal partner in choice of IRS/UPS and other financing support for Caprivi Interconnector. More generally there is less familiarity with blending in transport sector institutions (with the clear exception of NamPort) all of which request further information and briefing/training in potential use of blending.

EQ 5 Policy Reform

Main findings in bullet points (JC & source of information in brackets)
• All blending projects have been developed in a context of existing national (and regional) and EU policies. Blending projects are not perceived as having leverage in policy reform (or sector policy) albeit that two such projects[88] are positioned to complement such policies whilst contributing to strategic change (JC 5.1, 5.2; interview with EUD, IFIs and national partner institutions). • TA provided through blending has not been instrumental in new sector reforms having been engaged in preparation of studies which are compliant with existing sector policies. (JC 5.3) • Blending projects have not overtly contributed to regulatory and institutional reform in Namibia (JC 5.1, interviews with national partners). • ITMP is essentially a prioritised programme of capital investment interventions thus constituting a strategy for implementation of transport sector policies (JC 5.1, 5.2 & 5.3; interviews with national sector institutions – RA, RFA, MWT). • The Caprivi Interconnector is the project that most credibly may impact upon regional energy policies in that it has regional impacts upon stability and functionality of SAPP, is a stimulus to development of additional hydropower in Zambia (and avoidance of alternative thermal power generation), has positive environmental impacts and has potentially wider developmental impacts with appropriate safeguards. (JC 5.3; interviews with NamPower, IFIs)

Hypothesis	Evidence
Blending usefully complemented EU policy-related work	Confirmed, but as regards wider EU developmental policies rather than as expressed in CSP. The national policy landscape, which was compliant with EU and IFI developmental policies, was established and blending was used within that landscape. Renewable energy and transport multi-modality have been EU policies for more than a decade.
Blending and BS together are a more powerful function of change than either alone.	Not confirmed. Although the hypothesis is not actually disproved as such the perception is that blending is simply a different financing modality for projects which support and

[88] Caprivi Link Interconnector and Walvis Bay Container Terminal

	manifest sector/national/regional policies. There is no evidence of blending projects facilitating policy change or acting as a catalyst other than as described in the findings above on Caprivi Link Interconnector.

EQ 6 Project Quality

Main findings in bullet points (JC & source of information in brackets)

- Of the five projects examined, two are under preparation (LOHEPS – which seems unlikely to go ahead at present and the Biomass and Solar Power Project), two comprise grant funded studies (ITMP and Walvis Bay Container Port Extension) – the latter is currently under construction but not involving the originally identified[89] IFIs (see above regarding the circumstances of this withdrawal by EIB, KfW, AFD) whilst the fifth project Caprivi Link Interconnector has been contracted (EIB, KfW, AFD, AITF – IRS/UPS). The quality of documents/studies produced by AITF grant funded consultancy services (i.e. ITMP, feasibility studies for the Biomass and Solar power Project and Economic Market and Financial Feasibility Study for Walvis Bay Container Terminal Expansion are all reported by national partners as being of good quality; this is confirmed by documents examined by the evaluator). (JC 6.1; interviews with national partners, IFIs).
- Internationally accepted norms have been used where appropriate (e.g. ESIA for Caprivi Interconnector) and technical specifications have been to the highest international standards (e.g. Walvis Bay Container Terminal Expansion and especially Caprivi link Interconnector which comprises a 350kv HVDC light technology used for the first time for overhead transmission. (JC 6.1; interviews with national partners).
- Operations and maintenance plans have been prepared for Caprivi Link Interconnector and are reported to be functioning as planned (albeit that utilisation of the link still remains well below expected levels, pending resolution of distribution problems in Zambia and Zimbabwe).[90] Similar operations plans have been reportedly drawn up for the Walvis Bay Container Terminal. Maintenance of transport sector infrastructure is weak in many countries and Namibia is no exception. ITMP recognised maintenance issues especially, but not only, in the road sub-sector (i.e. rapidly deteriorating conditions, insufficient revenue generation, severe shortages of technical capacity) and proposed mitigation strategies including receiving of maintenance backlog, increased tariffs, earmarked budgets and strengthening of institutional capacities (JC 6.4; interviews with NamPower, NamPort, RA, RFA, MWT, IFIS)
- Project quality of the only blending project to be completed i.e. Caprivi Link Interconnector is high but it is not possible to conclude whether or not blending has delivered a higher quality project than would have been delivered by other financing modalities. Such high quality notwithstanding, there are elements of over-optimistic assumptions (e.g. adequate quality of Zambia corridors; adequate revenues for programmed rural electrification) which are characteristic of many development projects. That being said QA and QC measures undertaken during construction were reportedly of high quality. (JC 6.3, 6.5; interviews with NamPower, IFIs).

[89] This project can still be considered a blending project (albeit not EU) as it is understood that AfDB financing comprised not only loans (although the financing agreement has not been examined by the evaluator)

[90] NamPower has a good reputation for D&M.

Hypothesis	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages in the project cycle.	Not confirmed. In Namibia some projects are implemented purely by national institutions (e.g. NamPower) whilst in other sector capital investment projects are undertaken by donor-funding. The difference is related to sector institutional capacity and credit-worthiness of these institutions (e.g. NamPower has high technical and managerial capacity and is financially robust; ditto NamPort; in contrast transport sector institutions are characterised by technical weakness and weak finances). Whilst blending does ensure compliance with international standards it is not possible to conclude that in Namibia quality is higher than would otherwise be achieved. Reference has been made to O&M in project preparation and with regard to the energy and port sector projects, adequate O&M is expected. With reference to the transport sector, land transport sub-sectors have a history of deficient maintenance and premature deterioration.
In comparison to what other modalities (and why) does blending (not) deliver: • greater sustainability • greater affordability (to beneficiaries) • better viability/rates of return (to IFIs) • better impacts (on poverty alleviation) • more focus on the needs of vulnerable groups	Not confirmed. No evidence has been examined that blending projects deliver greater sustainability, affordability or viability than projects financed by other modalities. The only overt targeting of the poorest or most vulnerable was the rural electrification component of the Caprivi Link Interconnector whereby revenues accruing from usage of the link would be transferred to a special account for rural electrification. Given the lower than expected utilisation revenues did not meet expectations and thus the rate of rural electrification was slower than expected. However, as was pointed out by NamPower, this special account was not only dependent upon Caprivi Link but was subject to receipt of other NamPower revenues. Thus some extent of rural electrification was assured anyway.
EUDs are (not) directly involved in all stages of the blending cycle.	Confirmed. EUD is not directly involved in any blending projects which were all led by EIB or KfW. Given the CSP/NIP focal sectors EUD is little involved in sector policy dialogue in the energy and transport sectors (which are the only sectors covered by blending); inexplicably, given the hydrological situation in Namibia, the water sector is not represented in the blending portfolio.
IFIs have (in) adequate resources for effective policy dialogue.	Confirmed. IFIs with in-country or regional representation (e.g. KfW and EIB) have the presence and resources to participate in policy dialogue although such involvement is heavily dependent on the energy and interest of individuals in the IFI and national partner. Other IFIs do not have the resources to participate in such dialogue.
IFIs have (in) adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the project cycle	Partially confirmed. IFI protocols are all compliant with international norms even if not consistent across all IFIs. Technical norms do not differ significantly between national and international requirements and the recently enacted public procurement legislation is reportedly based upon WB procurement formats and procedures. Non-delivery of

(including response to non-delivery of commitments).	government commitments is acknowledged as a risk in the transport sector (albeit less of a risk than in some neighbouring countries) but the IFI stance is an assumed acceptance of responsibility by project partners to fulfil contractual obligations.
There are (in) consistent policies and quality requirements between different IFIs and the various EU investment facilities.	Not confirmed. Development policies are similar across all IFIs and agencies and in most case, national policies are consistent with international norms (most having been drafted by TA in accordance with international norms|) although some transport sub-sector do not yet have ratified policies (e.g. rail).
That potential beneficiaries (i.e. partner governments and institutions and EUDs) do (not) understand the differences and potential benefits of blending in comparison to other financing modalities.	Partially confirmed. Some national partners (especially the transport sector) have only a limited understanding of blending as a concept (and some interviewees perceived blending as less advantageous than grant-funding). Other sector partners (port and energy) have a clear appreciation of blending as a financing modality.[91] EUD clearly is familiar with blending concepts but expresses a need for significant training on operational issues of blending – this expressed need for training on blending was reported by most interviewees, especially transport sector
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation.	Confirmed. Mitigation measures were applied to emerging problems during the course of construction of the Caprivi Link Interconnector. There is no information of such mitigation measures for the Walvis Bay Container Terminal Expansion.

EQ 7 Finance Barriers

Not applicable for blending projects examined in Namibia.

EQ 8 Aid effectiveness and visibility

Main findings in bullet points (JC & source of information in brackets)
• There is limited EU visibility in projects examined. All documentation does indeed identify financing partners (EIB, KfW, AFD and, occasionally, AITF) but there is a) a common perception of 'ownership of visibility' by the lead IFI and b) that such IFIs are perceived as not being 'EU' although recognized as 'European'. (JC 8.3; interviews with national partners, IFIs). • The AITF grant component has financed consultancy services for feasibility, financial and preparatory studies but TA has not been supplied for establishment of project-specific PMUs. Where such PMUs have been established (for Walvis Bay Container Terminal Expansion and Caprivi Link Interconnector) NamPort and NamPower have established these units in-house with their own resources. (JC 8.2; interviews with national partners). • TA has not been used to navigate IFI procurement procedures (and disagreement on prequalification and procurement processes for Walvis Bay Container Terminal Expansion

[91] Albeit that comparison of 'term sheets' of different financing agencies by some national partners led to comment about the relative expense of European IFIs' financing packages compared to other IFIs.

led to withdrawal of European IFIs and entry of AfDB – see above). (JC 8.2, interviews with national partners, IFIs).

Hypothesis	Evidence
Preparation is time consuming but leads to better projects.	Confirmed in general – skimped project preparation is always likely to result in project deficiencies, increased costs and time over-runs. There is no evidence that blending produces projects of uniquely better quality than produced by projects financed by other modalities.
Management costs were inferior to pure loans.	Not confirmed. The interaction of multiple players increased time and transaction costs of national partners and, to a lesser extent, of IFIs. The ex-post evaluation of the Caprivi Link Interconnector refers to '*some problems of coordination between at least two of the co-financiers (due to competition on interest rates'* whilst noting that the inter-bank MRI procedure should reduce future similar problems. On the other hand it was noted that the '*additional costs for AFD in cooperating with EIB and KfW were negligible'*.
Dissemination of knowledge has led to visibility.	Not confirmed. No evidence examined of a link between dissemination of knowledge and visibility.

EQ 9 Results.

Main findings in bullet points (JC & source of information in brackets)

- **Lower Orange Power Hydroelectric Power Scheme (LOHEPS).**
  This project is on hold after disbursement of ZAR 1.2M (of a DBSA grant of N$ 3.5M). AITF grant funds were made available (but not used) for project preparation studies. The target outputs of LOHEPS were development of up to 9 small hydro-electric power stations, each having a capacity of between 6MW and 15MW for a total planned capacity of 100MW. IFIs include AFD, KfW, EIB and DBSA in partnership with NamPower and independent power producer Clacksen.
- **Namibia Biomass and Solar Power.**
  AITF has allocated €2.3M (SE4ALL envelope) for feasibility studies and TA. The project proposes to develop power stations using Namibian fuel sources i.e. biomass (invader bush) and solar energy (concentrated solar plant).
- **Namibia Integrated Transport Master Plan (ITMP).**
  The output of the AITF grant has been the production of ITMP upon which the Master Plan for development of an International Logistics Hub for SADC countries in Namibia is being prepared. These plans are not ends in themselves the ultimate objective being to lay the foundation for providing safe, secure and effective services responsive to the socio-economic needs of Namibia and other regional markets.
- **Expansion of the Walvis Bay Container Port**
  The output of the AITF grant was the Economic Market and Financial Feasibility Study. Construction is going ahead with AfDB financing following withdrawal of European IFIs (see above). The project objective is construction of new container terminal in response to increased traffic volumes at this gateway to three regional transit corridors – Trans-Kalahari, Trans-Caprivi and Trans-Kunene Corridors. Cargos involve domestic, transit and trans-shipment volumes.
- **Caprivi Link Interconnector**

This is the only completed blending project as regards constructed and operational infrastructure. The ex-post evaluation of this project[92] finds that project objectives were not fully met (at the time of the evaluation – 2015) and appear to have been too ambitious. Co-financing by AFD, EIB and KfW plus the AITF IRS acted as a catalyst for the NamPower bond issue – cooperation was fruitful but not easy because of diverse procedures and varying expectations resulting in financial losses for NamPower.

Project performance was rated as follows:

Relevance - Moderately satisfactory (MS)
Effectiveness - Moderately unsatisfactory (MU)
Efficiency - MU
Impact - MU
Sustainability - MS
Financiers Contribution - Satisfactory

Summarising main findings of the ex-post evaluation under each DAC criteria:

Relevance

The project is highly consistent with national and regional energy policy, as well as with the majority of the beneficiaries' needs and expectations. It is also consistent with the long-term aims of national and regional stakeholders' strategies.

With regard to internal consistency, the project design is coherent, even though some of the objectives proved to be too ambitious and the capacity of the project to directly influence them had been over-rated (objectives on rural electrification, regional integration, well-being of the population). Operational constraints and the evolution of the context led to lower scores for the operational phase for some years after completion.

Priorities such as strengthening of the regional network, diversification of electricity trading, and beneficiaries' needs and expectations to replace coal-based electricity by renewable energy (RE) are as valid today as they were during the project design phase. Although the capacity of the CLI is, presently, not fully utilized and the context of the regional market of supply has evolved over time, it does not question its relevance for the Namibian grid and the regional interconnection. The construction of HVDC CLI proves to be sufficiently consistent with the present national and regional technical environment.

As far as the future prospects are concerned, the new Power Purchase Agreement (PPA) and the Day-Ahead Market (DAM) are expected to offer new opportunities for regional trade, better attainment of strategic targets, and a more conducive input-output ratio. Therefore, future prospects are more positive.

Effectiveness

The project succeeded in increasing the reliability of the access to electricity by establishing a new channel for power imports. Affordability of electric power, however, did not improve as a result of the project. Energy independence from South Africa was not achieved as planned due to insufficient imports, especially of RE from Zambia, which also resulted in the under-utilization of the CLI. The objective of network stabilization, however, was fully achieved for both the national grid and the interconnected HV transmission grids in the regional network.

Although the project achieved substitution of fossil fuels sources with at least 320 GWh/a, the CLI's full potential could not yet be utilized. Consequently, the objective to 'ensure cost-efficient and environment-friendly electric power supply in Namibia' was not sufficiently attained. Investments for increased rural electrification were actually made by NamPower, but were not directly connected to the CLI. Accordingly, the contribution of the CLI to rural electrification can only be considered negligible in this respect.

The effective operation of the CLI was fully achieved in 2010 with full technical availability, though the maximum capacity could not yet be tested due to the lack of load available.

Due to new opportunities available for regional trade and the expected improvement in almost all judgment criteria, future prospects would most probably increase most of the effectiveness ratings.

Efficiency

[92] Ex-post Evaluation of the NamPower Caprivi Link Interconnector (CLI) Project, Integration International Management Consultants GmbH, AFD, April 2015

In terms of timeliness, apart from the delay of nine months in project implementation, the project preparation and implementation went well. The project's adherence to budget is also judged very positively because the project costs remained below budget expectations. Management arrangements and the performance of the NamPower staff in procurement, equipment installation, supervision, and financial control were fully adequate, timely and cost-effective. Monitoring and overseeing the project, however, concentrated on the construction phase only.

Coordination among the co-financiers was complex but was altogether accomplished without any major impediments or additional transaction costs.

Given the present capacity utilization of the CLI, the analysis of possible alternative scenarios shows that the Net Present Value (NPV) for a coal-fired power plant and a gas turbine power plant remains negative, whereas for an alternative 200 MW HVAC interconnector, it is positive. Hence, in hindsight and from a financial point of view the 200 MW HVAC interconnector would have been a better choice than the CLI.

Although the project performed as strongly on the project design and construction phase, as it did on cost effectiveness and cooperation among the co-financiers and with NamPower, the main indicator of project efficiency remains the Cost-Benefit Analysis (CBA).

Impact

The project scores high on the control of socio-environmental impacts and risk mitigation, especially during construction. The due diligence procedure of the Environmental Management Plan (EMP) have enabled NamPower to design and implement appropriate mitigation measures.

The most important direct impact of the CLI on the accessibility of power supply refers to future large-scale industrial operations, such as, mining. Employment effects constituted a positive socio-economic development, but occurred primarily during the construction phase and were not maintained thereafter.

Weaknesses concern the limited impact: (i) on economic and social development, (ii) on the improvement in living conditions, and (iii) on access to electricity in the rural areas.

The CLI has shown no significant measurable impact on tariff affordability in Namibia. NamPower's financial position was significantly impacted by operating losses from the under-utilization of the CLI. The rehabilitation of the Zambian interconnectors and increased regional power trade are expected to have a positive impact on NamPower's financial position in the future.

The positive impact of the project on cross-border cooperation remained below expectations. New PPAs with ZESCO and wheeling agreements are expected to contribute to a more reasonable capacity utilization rate, and consequently increased cross border cooperation.

Sustainability

Institutional sustainability is an important element of CLI's sustainability. NamPower's governance is a strong point, ensuring flexibility under changing external conditions. The company is also well prepared to accommodate modification of design in order to reinforce the CLI's transmission capacity in the future. Technical sustainability can be considered to be ensured under the present low load on, but is uncertain (and was not assessed here) as the line remains to be tested under conditions of full capacity utilization. At present, financial sustainability of the project is, not achieved, as the current under-utilization of the CLI prevents it from being financially viable.

With regard to changing external conditions, the crucial element will be the new PPA. Future wheeling opportunities, increased short-term trade (DAM), new interconnectors (ZiZaBoNa), and the removal of transmission constraints in Zambia are expected to ensure the financial sustainability of NamPower in general and of the CLI project in particular.

Financiers' Contributions

The financiers saw the CLI project as a pioneer project for co-financing. The coordination of loan agreements among the co-financiers was complex but good overall, and the contribution of the CLI project to the dialogue between the involved parties was high. Minor difficulties were encountered due to the lack of harmonized procedures and contractual conditions, and a competition over interest rates among the co-financiers. The dialogue with NamPower went well. NamPower judged the cooperation with the banks as efficient and helpful. Consequently, the financiers contributed significantly to enhancing the quality of the project.

The support provided by EIB towards quality and performance of the project was highly valued as NamPower became the first utility in southern Africa to gain experience on HVDC technology. The value added by EU-AITF through the up-front interest rate subsidy was also highly appreciated by NamPower.

Cost - Benefit Analysis

In this evaluation, in addition to rating the project performance according to the five DAC criteria, a Cost-Benefit Analysis (CBA) was also carried out. The CBA updated the main scenarios and assumptions underlying the project's feasibility and calculated the Internal Rate of Return (IRR) for the present conditions. When looking at the results of the CBA, it should be borne in mind that the key parameters are likely to fluctuate over the project's 40-year time horizon.

The CBA revealed line utilization of the CLI as the most critical factor for its feasibility. Based on the utilization rates observed in 2012 and 2013, the CBA arrived at an IRR at 5.4%, the NPV at EUR 81.6 M, and the pay-back period below expectations. Nevertheless, in comparison with similar transmission projects, the CBA shows that the CLI's performance is not particularly disappointing, as constraints during the start-up phase have also been common in other projects and are expected to be largely compensated by improved performance in the years from 2020.

The growing demand for power in Namibia and in the region is expected to improve the utilization of the CLI's capacity (owing to increased wheeling from Zambia via CLI to Namibia and further to South Africa, and new generation capacities in Namibia) and result in better financial performance for NamPower.

Hypothesis	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies.	Confirmed. Preparatory and feasibility studies examined were of good quality albeit that some assumptions and objectives were too optimistic. Identification and articulation of the benefits chain is characteristically weak in project preparation (not only of blending projects) and of the full blending projects examined, only Caprivi Link Interconnector had explicit linkage to impacts on economic and social development, improved living conditions (and rural electrification) on which the project was adjudged to have had only limited impact.
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated and/or mitigating measures were insufficient.	Confirmed. Risk assessment was limited (there is no reference to risks or mitigation measures in documentation examined for 3/5 blending projects examined) Only for the completed Caprivi Link Interconnector can hindsight assess handling of project risks – the ex-post evaluation concludes: '*Project risks as well as key elements relevant to the performance of the project in the future (regional demand, regional trade mechanisms, cross-border tariffs etc) were not adequately assessed during the design phase. Risk management and control mechanisms were not sufficiently defined to allow for timely corrective action.'*
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects.	Partially confirmed. Of the projects examined three are at development stage and preparatory studies have only generic reference to poverty impacts, assuming a 'trickle down' impact upon poverty. The two major projects under construction (Walvis bay Container Port) and completed (Caprivi Interconnector) concentrate on macro levels of economic development although the latter has specific socio-economic targets – see above. It is not immediately obvious how the poverty lens of a major port could be better focussed.
Monitoring of results was uneven across projects and IFIs and often insufficient.	Limited evidence to conclude confirmation or otherwise. Only projects going forward to construction and operation are subject to meaningful monitoring (i.e. Walvis bay Container Port and Caprivi-Link Interconnector). Information has only been examined for the latter. The ex-post evaluation notes that technical monitoring and oversight of planning and

	construction was as per required standards but after inauguration in late 2010 '*the interest of NamPower and co-financiers to continue monitoring somewhat waned*' and goes on to note *'cooperation among the co-financiers and between the co-financiers and NamPower…during the operational phase was less intensive and monitoring of project performance was somewhat neglected'*.

Annexes

Annex A: Persons Met

(* - telephone interviews)

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GIZ

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Isai Haikela		

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NamPort

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Road Fund

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Boris Bottcher	Senior Technical Advisor: Programme Management & Policy Advice	bbottcher@rfanam.com.na

Annex B – Documents Consulted

Expansion of Walvis Bay Container Terminal

- Submission to Executive Committee, KfW, Development Bank, Dec 2009.
- Grant Operation Request from the Project Financiers Group. EU-Africa Infrastructure Trust Fund, Nov 2009
- Cancellation of Approval Grant Operation, EU-Africa ITF, Dec 2012
- The Strategic Expansion of the Walvis Bay Container Terminal Final Report – Economic Market Study and Financial Feasibility, Nathan Associates, April 2012

Lower Orange River Hydro-Electric Power Scheme (LOHEPS)

- Briefing note, EU-Africa ITF, www.eu-africa-infrastructure-tf.net/activities/grants/lower-orange-river-hydro-electric-power-scheme-loheps.htm
- Source Namibia's electricity supply through the development of renewable energies, AFD (regional projects), http://www.afd.fr/lang/en/home/pays/afrique/geo-afr/afrique-du-sud/projets-afrique-du-sud/projets-region-afdusud

Namibia Biomass and Solar Power Feasibility Study

- Briefing note, EU-Africa ITF, www.eu-africa-infrastructure-tf.net/activities/grants/namibia-biomass-and-solar-power-feasibility-study.htm
- Study on Namibian Biomass Processing the Energy Production, STEAG Energy Services GMBH, Transworld Cargo (Pty) Ltd, Global Compact Network, NEF, GIZ, Oct 2013.

Namibia Integrated Transport Master Plan

- Submission to Executive Committee, EIB, Oct 2010
- Grant application cover sheet, EU-Africa ITF, Sept 2010
- Briefing note, EU-Africa ITF/EIB, www.eu-africa-infrastructure-tf.net
- Technical Assistance for the Namibia Integrated Transport Master Plan – TA 2010 050 NA ITF, Vets 1-7, March 2014
- The Project in Master Plan for Development of an International Logistics Hub for SADC Countries in the Republic of Namibia Draft Final Report, JICA/GRN/National Planning Commissions (NPC), Feb 2015.

Caprivi Interconnector

- Source Namibia's electricity supply through the good connection with Zambia, AFDC (Regional projects). http://www.afd.fr/lang/en/home/pays/afrique/geo-afr/afrique-du-sud/projets-afrique-du-sud/projets-region-afdusud
- Grant Operation Request from the PFG, EU-Africa ITF, Sept 2007
- Development Impact Assessment Framework, ACP Investment Focus, Jan 2007
- EU-Africa ITF, Trust Fund Executive Committee – Decision, Jan 2008
- Project Completion Report, EIB, May 2012
- Proposal from the Management Committee to the Board of Directors, EIB, Feb 2008
- Ex-post Evaluation of the NamPower Caprivi Link Interconnector (CLI) Project, Integration International Management Consultants GmbH, AFD, April 2015

Other

- Monitoring Report, EU-Africa ITF, EU-AITF Secretariat EIB, Dec 2014.

Annex C: Survey for Final Beneficiaries

Project identification (title, status, etc.)	**Expansion of Walvis Bay Container Terminal**
What is your involvement/role in this project?	
NamPort. (Port Engineer)	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Not directly – the main impact of the project is to solve a major regional bottleneck in containerized freight transport and thus avoid an increase in transport costs, which would result from a growth in container shipment in excess of the port's capacity.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Yes as regards construction of the port but not as regards the anticipated financing partners – the European IFIs pulled out over disagreements about the prequalification and procurement procedures.
Who are the people benefiting the project?	
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes – NamPort is gaining project management experience from this project which will be applied in further port expansion projects.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	There are expected to be significant economic gains to the Southern Africa region. WBCG (public – private partnership) is promoting multi-modal trans-Caprivi, trans-Kunene and trans-Kalahari corridors to develop Walvis Bay into a regional hub to provide a more direct route for trade with the Americas and Europe than east African ports.
Have any (temporary and permanent) jobs been created?	Temporary employment has been generated during the construction period. Longer term employment has been created but in limited numbers as container handling is highly mechanical requiring limited numbers of highly skilled operators.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	
Is there anything that can be improved?	
Rigidity in application of IFI procedures leads to delays and project implementation problems e.g. procurement issues. Also assumptions by IFIs that TA support is necessary without assessment of capacities.	
Do you have any other comments?	
Term sheets showed that European IFIs donors were expensive in comparison with other IFIs – almost on a par with commercial financing.	

Project identification (title, status, etc.)	**Namibia Integrated Transport Master Plan (ITMP)**
What is your involvement/role in this project?	
Road Sector institutions – Ministry of Works and Transport (MWT), Road Fund Administration (RFA), Roads Authority.	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Not directly – ITMP was aimed at macro-economic development.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	Yes – the object of the consultancy services was preparation of ITMP.
Who are the people benefiting the project?	Government of Namibia and transport sector institutions leading to benefits for transport users – nationally and regionally.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	Yes – the ITMP has been presented to Cabinet (but not endorsed). The JICA funded Master Plan for Development of an International Hub for SADC countries in Namibia is under preparation and building upon ITMP.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Assisting Namibia to reach economic, social and environmental development goals over the coming 20 years. Better transport can contribute to regional economic development also improving the quality of life and standard of living for rural and urban based communities in Namibia.
Have any (temporary and permanent) jobs been created?	Not directly – employment can be expected to be generated directly and indirectly from transport infrastructure interventions.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	Extensive consultations with transport providers and user stakeholder groups.
Is there anything that can be improved?	
More information to be made available on blending (MWT).	
Do you have any other comments?	
Stakeholder Working Group not established. Initially no comments received on draft ITMP – deadline for comments extended.	

Project identification (title, status, etc.)	**Caprivi Link Interconnector (CLI)**
What is your involvement/role in this project?	
NamPower	
From your viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	CLI has no evidenced direct impact on the wellbeing of the population, on poverty reduction and on the socio-economic development. Indirect impacts generated through possible employment effects of new or expanded mining operations are possible but hardly measurable.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	The project has been implemented as per designs and specification – 970 km 350 KV 300 MW transmission line. Project objectives were not fully met upon completion, the project objectives appearing to have been too ambitious.
Who are the people benefiting the project?	The direct beneficiary was NamPower (and the Namibian people). Final beneficiaries are also the population of the Southern African region as well as national utilities benefitting from cross-border trade in electricity.
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	CLI is consistent with the needs of final beneficiaries in terms of access to affordable electricity and RE.
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	Reliable and economic access to electric power, diversification and energy independence, substitution of fossil fuel sources with hydropower services consolidation and stabilization of interconnected networks at regional level, contribution towards rural electrification.
Have any (temporary and permanent) jobs been created?	The project positively impacted on employment especially during construction, NamPower assigned substantial human resources to civil works, supervision and transport plus sub-contractors were hired (20% if total investment was estimated to be personnel costs; 80% of D&M expenses are estimated to be personnel costs.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	-
Is there anything that can be improved?	
-	
Do you have any other comments?	
-	

Annex D Namibia – Mission Diary

Date	Time	Institution	Venue	Meeting with	Projects[1]	Contact
Mon 1 Feb	10:00	EUD	2, Newton Street	Markus Theobald	Briefing	+264 61 202 6205
Mon 1 Feb	11:00	WBCG	31 General M Muhammed Avenue	Mr Immanuel Shipanga Mr Gilbert Boois	Transport sector EU-AITF-2009/16 EU-AITF-2010/13	+264 61 251 669
Mon 1 Feb	14:00	KfW	7, Schwerinburg Street	Dr Uwe Stoll	All projects below	+264 61 226 853
	16:00	BP	8, Eugene Marais Sreet	Mr A van der Merwe	EU-AITF-2010/13 TA/01	+264 61 379 000
Tue 2 Feb	07:30	Nampower	National Control Building Goethe Street	Mr Reiner Jagau	Energy Sector EU-AITF-2008/01 EU-AITF-2010/09 EU-AITF-2014/06:	+264 61 205 2287 +264 81 124 5270
Tue 2 Feb	11:00	RA	MWT Head Office, Room 108, Ausspannplatz	Ruana Hanghuwo Executive Officer	EU-AITF-2009/16 EU-AITF-2010/13	+264 61 284 7022 +264 81 129 7979
Tue 2 Feb	15:30	MWT	MWT Office, 6719, Bell Street	Mr Cedric Limbo Director Transportation, Policy and Regulation Damien Mabengano Dep. Dir Chris Fikunawa Dep Dir Legislation	EU-AITF-2009/16 EU-AITF-2010/13	+264 61 208 8152 +264 81 150 5858 +264 81 146 7202 +264 81 144 8156
We 3Feb	09:30	GIZ	MWT Head Office, Room 808, Ausspannplatz	Prof Dr Ing Heinrich Semar Advisor to the Minister MWT	EU-AITF-2010/13	+264 61 284 8827 +264 81 129 2700
We 3 Feb	14:00	Namport	Heinitzburg	Elzivier Gelderbloem	EU-AITF-2009/16 EU-AITF-2010/13- TA/01	+264 64 208 2376 +264 81 275 5214

We 3 Feb	16:00	RFA	21 Feld Street, Room 208	Mr Rianus !Gonteb Erkenwald Khiba Boris Böttcher	EU-AITF-2010/13 EU-AITF-2010/13-TA/01	+264 61 433 3007 +264 81 129 0685 +264 81 128 1415 +264 81 233 7641
Tue 4 Feb	09:00	EUD,	2 Newton Street	Dr Marcus Theobald	De-briefing	+264 61 202 6205

BP = Burmeister & Partners EUD = European Union Delegation to Namibia GIZ = German International Coopertion KfW = Kredietanstalt für Wiederaufbau
MWT = Ministry of Works and Transport RA = Roads Authority RFA = Road Fund Administration WBCG = Walvis Bay Corridor Group

1. Projects examined

1. EU-AITF-2008/01: Caprivi Interconnector: Energy: Namibia, Zambia: €306,000,000: EU-AITF-2008/01-IRS/01: IRS for the Caprivi Interconnector project: (Nampower, AFD, KfW)
2. EU-AITF-2009/16: Expansion of Port of Walvis Bay: Transport: Namibia: €200,000,000: EU-AITF-2009/16-TA/01: Expansion of Port of Walvis Bay Container Terminal – TA: (NamPort, AFD, KfW)
3. EU-AITF-2010/13: Namibian Transport Master Plan: Transport: Namibia, South Africa, Botswana, Angola, the Democratic Republic of the Congo, Zambia, Zimbabwe: EU-AITF-2010/13-TA/01: Integrated Transport Master Plan for Namibia: (Ministry of Works and Transport, Road Administration, TransNamib)
4. EU-AITF-2014/06: Namibia Biomass and Solar Power: Energy: Namibia: €304,600,000: EU-AITF-2014/06-TA/01: TA for the feasibility studies for the development of biomass and CSP power plants.
5. EU-AITF-2010/09: Lower Orange River Hydro Electricity Power Scheme (LOHEPS): Energy: Namibia, South Africa: €250,000,000: EU-AITF-2010/09-TA/01: Preparatory activities for the LOHEPS project

Annex E : Project Photos

Caprivi Link Inter-connector

Gerus converter station Source ABB

Rows of semiconductor units for converting current

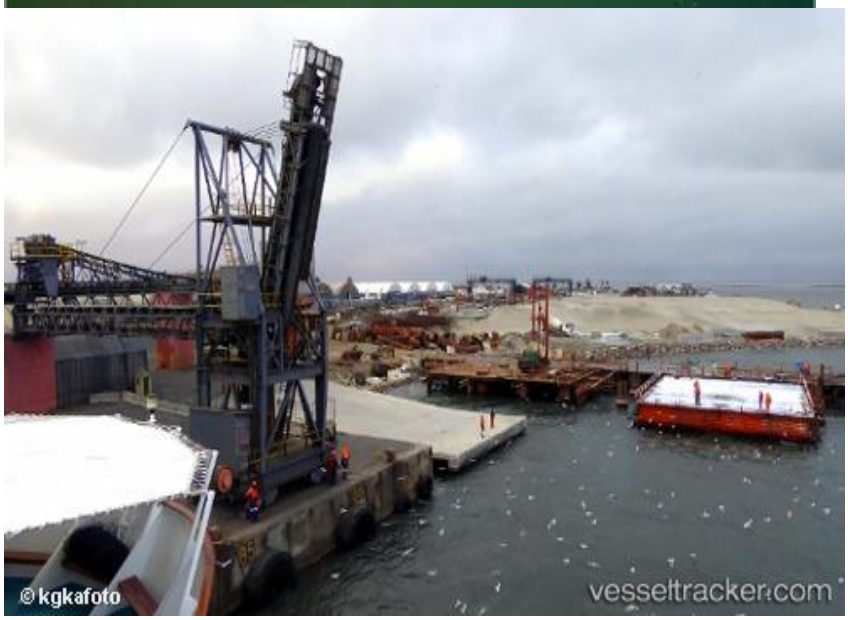
Site preparation – Gerus substation

www.eu-africa-infrastructure-tf.net

Gerus substation Source: ABB

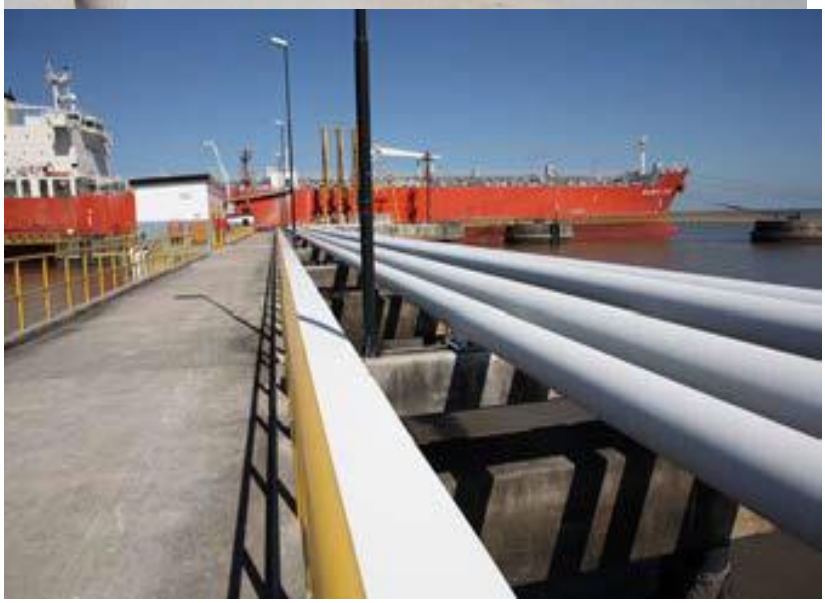
Expansion of Walvis Bay Container Terminal

Project Appraisal Report, OITC Dept, AfDB, July 2013 www.erongo.com.na



www.namibiansun.com

Namibia Integrated Transport Master Plan



Source of images: www.eu-africa-infrastructure-tf.net

Case study note – Energy in West Africa (Benin, Togo and Ghana)

CASE STUDY NOTE – ENERGY IN WEST AFRICA (BENIN, TOGO AND GHANA) 327

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Abbreviations

ACP	African, Caribbean and Pacific
ADB	African Development Bank
AFD	French Development Agency
AfDB	African Devlopment Bank
AfIF	Africa Investment Facility
BAD	Banque Africaine de développement
BOAD	West African Development Bank
CEB	Electrical Community of Benin
CEB	Communauté électrique du Bénin
CEET	Togo Electricity and Energy Company
CEET	Compagnie Energie Electrique du Togo
EBI	European Investment Bank
ECOWAS	Economic Community of West African States
EDF	European Development Fund
ERERA	Regional Electricity Regulatory Authority
EU	European Union
EUD	European Union Delegation
GW	gigawatts
HIPC	Highly Indebted Poor Countries
IG	Investment grant
IRS	Investment rate subsidy
ITF	EU-Africa Infrastructure Trust Fund
LCO	Lomé-Cotonou-Onigbolo
NIP	National Indicative Programme
OHADA	Organisation for the Harmonisation of Corporate Law in Africa
OMVG	Gambia River Basin Development Authority
OMVS	Senegal River Basin Development Authority
PSD	Private Sector Development
RECASEB	Renforcement des Capacités des Acteurs du Secteur de l'Energie au Bénin
REPP	Renewable Energy Performance Platform
RIP	Regional Indicative Programme
SBEE	Electrical Energy Society of Benin
SBEE	Société Béninoise d'Energie Electrique
SDG	Sustainable Development Goal
SE4ALL	Sustainable Energy for All
TA	Technical assistance
UEMOA	West African Monetary Zone
WAPP	West African Power Pool
WB	World Bank

1. Introduction and context

1.1 Purpose and methodology

This note presents the main features and findings from the case study on the EU's blending support to the energy sector in West-Africa. It is one of a dozen case country or regional case studies conducted in the context of the Evaluation of EU Blending, among other evaluation tools at a global level (desk study, surveys, etc.).

The case study is essentially based on in-depth examination of four blending projects, detailed hereafter, and on discussions on other blending projects. The approach consisted mainly in desk review of strategy and project-level documentation; site visits in Benin and Togo during a one-week visit on 8-12 February 2016; and a series of face-to-face and phone interviews conducted with a variety of stakeholders in those two countries as well as in Accra (Ghana, ERERA HQ), Luxemburg (EIB HQ) and Paris (AFD HQ). Details on the organisations met and the documents consulted are provided in the annexes to this note.

1.2 Electricity challenges in West Africa

The **West African countries** are regrouped under the Economic Community of West African States (ECOWAS) with a population of about 300 million of which 60% lives in rural areas and 25% in average having access to electricity (5% in rural areas).The West African countries are characterised by disparities in terms of landscape, climate and energy resources.

Energy is one of the essential factors to assure an efficient and sustainable development of these countries but there is a big gap between the abundance of energy resources and available offer for electricity. There are various energy resources in West Africa: hydro, biomass, petrol, natural gas, solar and wind. Hydro is mostly used to produce electricity as many countries are crossed by big rivers. Renewable energy can be a real perspective of development of production of electricity with low carbon emission.

Nigeria has the biggest hydro resources and almost the totality of gas reserve. The maximum energy demand in the West African region is about 7 gigawatts (GW). The countries exporting electricity are Nigeria, Ghana and Ivory Coast. The energy demand is not satisfied, with a very high level of failings in almost all the West African countries due to insufficiency of electricity production and transmission infrastructures. The electricity consumption in West Africa is among the lowest in the world.

The production registers an increase but the deficit between the demand and the production does not stop to increase. Some causes of this insufficiency of the production are the dryness of rivers and the non-availability of gas. But production capacities are a major issue: about ¼ of it are out of service or are operating below their maximum capacity; and more than ½ of these production capacities are over 40 years old. The average age of the transmission infrastructures is also above 40 years.

Just as in the other West African countries there are a lot of challenges in the energy sectors of **Togo and Benin**. They are governed by a series of texts and laws in each country, as well

as by the "Code Bénino-Togolais" of 1968 which relates to the binational organism named CEB (Communauté électrique du Bénin[93]) which is in charge of the production, import and transmission of electricity in the two countries. The distribution to the final customers is managed by a national electricity company in each country: CEET (Compagnie Energie Electrique du Togo) in Togo; and SBEE (Société Béninoise d'Energie Electrique) in Benin. CEB has a total production capacity of 105 MW and imports 50 MW from Ghana and 180 MW from Nigeria, which are sold to CEET and SBEE.

However, the electricity demand in the two countries is far to be satisfied with many electricity cut offs. The access to electricity services in recent years was 31.5% in Togo and 38.4% in Benin[94], rates which are almost five times higher in urban than in rural areas. All these issues cause repetitive shut downs in the electricity systems and one can predict increasing difficulties in the future. According to the World Bank, the electricity cut off costs 6% of income of enterprises of the structured sector and up to 20% loss of revenue for companies who do not have back-up equipment. The World Bank evaluates that this electricity cut off weights about 1 ½ point of the annual growth in the region

To address the challenges faced by the energy sector in West Africa, ECOWAS has multiplied initiatives to enhance the energy access to growing populations and to provide the means of economic growth. This includes the creation of institutions like the West African Power Pool (WAPP) and the ECOWAS Regional Electricity Regulatory Authority (ERERA).

The objective of the **WAPP** is to establish a regional electricity market through the development and implementation of electricity infrastructure projects that will foster power exchange among the West African countries and allow an access to affordable and reliable energy services. The aim of **ERERA** is to create the framework for a competitive regional electricity market by enhancing regional power policy, planning and technical regulation. Both the WAPP and ERERA are recent institutions and do not have yet sustainable funding; their operating cost need to be covered by donors and their projects financed by grants and or loans.

IFI's are very active in addressing the challenges in the energy sector in West Africa, by financing alone or within a pool, various energy projects through grants, loans and technical assistance. Main IFIs active in West Africa, including in Benin and in Togo, are the WB, ADB, BOAD, EIB, AFD, IMF, EBID, EXIM Bank, and ISDB.[95]

1.3 EU's response to the electricity challenges in West-Africa

The basis for the EU's recent development policy, the **Agenda for Change** adopted in 2011, promotes among others energy and innovative financing mechanisms. This support to energy is important notably in West Africa where "the energy sector is considered as one of

93 "Benin" refers here to the Bight of Benin on the western African coast, rather than to the sole Republic of Benin.

94 World Bank data for the period 2011-2015.

95 World Bank (WB), African Development Bank (ADB), West African Development Bank (BOAD), European Investment Bank (EIB), Agence française de développement (AFD), International Monetary Fund (IMF), ECOWAS Bank for Investment and Development (EBID), Export and Import Bank (EXIM Bank), and Islamic Development Bank (ISDB).

the most prominent integration factors for the region"[96]. The EU aims at responding to the electricity challenges that West Africa is facing by creating an investment-friendly environment for the energy sector and by investing in energy projects. It does so through several EU financial instruments.

The EU is supporting West-African countries primarily through the European Development Funds (EDF), which is **bilateral and regional aid** include support to the energy sector. This is particularly the case since the 11th EDF Regional Indicative Programme (RIP) for West Africa with 200 million euros allocated to the energy sector.

Since 2005, the **EU-ACP Energy Facility** finances projects to increase access to sustainable energy in the ACP countries. The second call for the Energy Facility 2 was specifically targeting **rural electrification**. For example, the Energy Facility financed the Cross-border Supply of Electricity to Rural Communities in Togo from Ghana project for 1.5 M€ and the Electrification of 105 rural localities in Benin for 20 M€ (CRIS 195 987).

The creation of new instruments such as the **EU-Africa Infrastructure Trust Fund (ITF)** in 2007; a specific window of the ITF as support to the **Sustainable Energy for All (SE4ALL)** initiative in 2011; and the EU's **Technical Assistance Facility (TAF)** in 2013, also play an important role in the EU's response to electricity challenges. The ITF and its SE4ALL window promote investments in the energy sector through **blending**, that is, using grants to leverage private investments. They also aim at facilitating the implementation of investment projects by creating enabling policies and regulatory frameworks, by promoting industrial and technical cooperation, by increasing the technical and administrative capacities of its partners, and by mobilising funds for energy projects.

The EU also created recently the **Africa Investment Facility (AfIF)**, which will progressively substitute ITF from mid-2015. This new blending facility will provide support through investment grants, technical assistance and risk sharing instruments. It supports investments in infrastructure in the fields of energy, transport, communication, environment including water and sanitation, social, Information and Communication Technologies, agriculture as well as support to private sector development, mainly SMEs. It may operate at the regional or global levels, but also as at the national level (unlike the ITF before creation of its SE4All window). Projects under the AfIF will be funded on programmable EDF resources, in particular through the EU's national or regional indicative programmes (NIPs/RIPs).

[96] European Commission, *'EU support to West Africa Energy Sector' Factsheet*, 2015

2. EU blending projects overview

2.1 Overview of blending projects in West-Africa

The EU has funded ten blending projects in West-Africa through the ITF during the evaluation period 2007-2014 (see table below). All but two relate directly to energy.[97] Projects listed in bold have been selected for in-depth examination.

Project title	Lead IFI	Type of support	Contract Year	EU amount	Total loan
ECOWAS Electricity Regulation (ERERA)	**AFD**	**Technical Assistance**	**2009**	**1.7 M€**	**6.69 M€**
WAPP - Coastal Backbone transmission line	EIB	Technical Assistance	2009	1.75 M€	58.25 M€
Benin - Togo Power Rehabilitation	**EIB**	**Interest Rate Subsidy**	**2009**	**12.25 M€**	**60.95 M€**
Update of the WAPP Masterplan	**EIB**	**Technical Assistance**	**2009**	**1.3 M€**	**66.65 M€**
WAPP Power Interconnection in West Africa (Ghana-Burkina Faso-Mali)	AFD	Technical Assistance	2011	1.2 M€	143.80 M€
Development and implementation of a Social and Environmental Management System at BOAD	AfDB	Technical Assistance	2011	0.4 M€	66.65 M€
Interconnection Bolgatanga-Ouagadougou	EIB	Combined (TA/IRS)	2011	14.3 M€	66.70 M€
Togo-Burkina Faso Road Corridor	AfDB	Technical Assistance	2012	2.3 M€	284.88 M€
Access to Electricity in the Atlantique Province in Benin	**AFD**	**Investment Grant**	**2013**	**20 M€**	**58.00 M€**
Renewable Energy Performance Platform (REPP)	EIB	(not specified)	2014	15 M€	182.0 M€

Note. Projects in bold are those examined in this case study.
Source: ADE based on data from the ITF secretariat and project documents

[97] Exceptions: Development and implementation of a Social and Environmental Management System at BOAD; and the Togo-Burkina Faso Road Corridor

2.2 Focus on projects examined

The boxes present a synthetic overview of main characteristics of the four projects examined.

Project	Update of the WAPP master plan
Country	West-Africa - ECOWAS countries (Regional-ITF)
Funding	ITF grant (€ and %): 1,3M€ (100% of total project costs)
Lead IFI	EIB
Type of support	Technical assistance
Policy objective	The WAPP (West African Power Pool) masterplan – created in 2003 - is a framework that aims to insure the generation and the supply of electricity at the West African regional level.
Project objective	Updating the WAPP masterplan.
Summary	The revised master plan is driven by the WAPP (West African Power Pool), a specialised institution of the ECOWAS (Economic Community of West African States). The master plan's objective is to ensure long term, accessible and reliable quality electricity supply to the population of ECOWAS member states. The master plan aims to provide a clear, global and coherent view of the future development of electrical energy generation and transmission infrastructures. Its revised version (completed in 2011) updates the previous 2003 one.

Source: ADE based on project documents

Project	ERERA
Country	West-Africa - ECOWAS countries (Regional-ITF)
Funding	Total project cost: 8.4M€ Total financing: 6.7M€ IFI financing: 5M€ ITF grant (€ and %): 1,7M€ (25%)
Lead IFI	AFD
Type of support	Technical assistance
Policy objective	The ECOWAS is committed to the development of a regional market for energy.
Project objective	To foster regional integration in the energy sector in West Africa
Summary	The Regional Electricity Regulatory Authority (ERERA, ARREC in French) was launched in January 2008. It has been created by the ECOWAS and its role is to be the regulator of regional cross-border trade of electricity in West Africa. ITF funding aimed to secure operating and functioning costs for the first years.

Source: ADE based on project documents

Project	Access to electricity in the Atlantic Province (referred to herein as the "Atlantic Project")
Country	Benin
Funding	Total project cost: 65.4M€ Total external financing: 58M€ of which 20M€ AFD; 18M€ EIB; and 20M€ (34%) ITF grant
Lead IFI	AFD
Type of support	Investment grant
Policy objective	Provide reliable electricity to a major dormitory city and rural villages of that province
Project objective	Since 2009, the SBEE develops a strategic plan for action in order to secure the quality and reliability of its service, develop the electrification of rural areas and manage its technical and commercial losses. In this respect, two new source stations and electric lines are to be constructed in Abomey Calavi and the surrounding rural areas.
Summary	The restructuration and extension of the Electrical Energy Society of Benin's (SBEE) networks project concerns the city of Abomey Calavi ("bedroom suburb" of Cotonou) and 81 rural communities of the Atlantic province. The objectives of the project are: - To secure both service quality and reliability and installations security in the next 20 years; - To develop significantly the electrification of the rural areas of the department; and - For SBEE to manage the level of technical and commercial losses. Construction works include two source stations, transmission stations, and electric lines.

Source: ADE based on project documents

Project	Benin-Togo Power Rehabilitation (LCO component)
Country	Regional-ITF
Funding	*Overall project:* Total project cost: 73.2M€ Total financing: 73.2M€ IFI financing: 60.95 M€ (EIB, WB, KfW) *LCO component*[98] *(«Réhabilitation ligne 161kwV Lomé-Cotonou-Onigbolo»):* EIB loan of 35 M€ ITF grant (€ and %): 12.25 M€ (36% of 35 M€)
Lead IFI	EIB
Type of support	Interest rate subsidy
Policy objective	Create a better environment for economic and private sector development

[98] The LCO component included all activities in Togo from the overall project.

Project objective	By refurbishing and extending the transmission networks of Togo and Benin, the objectives are to : - Avoid major power supply disruptions - Reduce the use of low-efficiency local generators - Decrease network losses.
Summary	By refurbishing and extending the transmission networks of Togo and Benin, the Benin-Togo Power Rehabilitation project objectives are to rehabilitate a series of substations in both countries so as to make them operational for the next 20 years, in order: - to avoid major power supply disruptions, - to reduce the use of low-efficiency local generators, - to decrease network losses. The LCO (Lomé-Cotonou-Onigbolo) component of the project, on which this case study focused, deals with the rehabilitation of the 161 kV electric line between the three cities. The 161 kV line is the main power supply line of the CEB. Built in 1971 and 1982, the line and the infrastructures are aging, causing power loss and functionality defaults.

Source: ADE based on project documents

3. Main findings

3.1 Strategic Relevance

- Energy is and will remain in the coming years a priority development issue for West-Africa. Most countries in this region are HIPC and need concessionary finance for public infrastructure investment projects.
- All four projects examined were most relevant in view of meeting the energy challenges in the region; were aligned with EU, ITF and regional/national priorities; and required grant funding in part or in full.
- The support to regional initiatives (WAPP and ERERA) gave a chance to address international, institutional, and credibility issues at the level of the entire region and in a longer term perspective. It laid the basis for sound and coherent regional and national initiatives in view of creating an effective regional energy market in West-Africa. Grant funding was needed given financing issues for regional initiatives; it was however not clear to staff involved why both supports were funded through a blending rather than a pure-grant mechanism.
- The significant EU grant contribution to the Atlantic project (20M€ out of 58M€) enabled the project to materialise overall, but also specifically to have a rural component.

3.2 Added Value

- Blending is considered by many parties in those countries as more suitable than budget support for supporting infrastructure works in this sector, in that funding goes more directly to the sector and that private sector suppliers are paid with less delays.

- The two infrastructure projects examined had a sound design and high implementation standards. The specific role of blending in this is difficult to distinguish however.
- Government transaction costs benefited from mutual reliance, i.e. that it had to deal with one less interlocutor (in terms of procedures, management time, etc.). This is a benefit associated to blending.

3.3 Results

- Benin-Togo Power Rehabilitation (LCO component): although with some delays and minor issues the project has been completed at roughly 90%-95% to date. The project rehabilitated electricity transmission lines and power stations between Lomé in Togo and Onigbolo in Benin for another two decades, with a view to avoid major disruptions, reduce low-efficiency generators and decrease network losses.
- WAPP: The revision of the master plan was very much valued, as it laid strong foundations for establishing a regional electricity market in West Africa in the mid to long term. It has already led to improved planning and coordination of national/regional projects. However, there is currently and in the short term no such regional market. Benefits for ultimate beneficiaries (populations of West Africa) cannot hence be much observed at this stage, beyond benefits from specific national/binational/regional projects inscribed in the master plan.
- ERERA: The project did permit to conduct a series of first activities for the new regional regulatory authority. But the project faced a series of implementation issues owing notably to lack of political willingness by ECOWAS member states. Results in terms of improved regulatory oversight at regional and national levels are hence limited so far.
- Atlantic Project: N/A (the project is about to start)

4. Findings across the evaluation questions

4.1 EQ 1: Strategic relevance

Main findings EQ 1
▪ Both Benin and Togo are HIPC countries and have hence limitations in terms of contracting additional debt. The IFM's calculation sheet is used for determining the minimum concessionality level (on the basis of three criteria: rate, maturity and grace period). Projects need to have a concessionary level of 35% to be accepted by IMF standards ("IMF compatible loans"). [99] Benin was considered in the last IFM evaluation as a country with a "low risk of debt distress". Its annual discount rate is set at 5%. The level of concessionary finance provided by the EU blending projects was below the overall 35% rate.

Desk hypothesisEQ1	Evidence
That projects posing specific challenges requiring blending will continue to grow	Energy is and will remain in the coming years a priority development issue for West-Africa. Most countries in this region are HIPC and need concessionary finance for public infrastructure investment projects.

4.2 EQ 2: Project Alignment

Main findings EQ 2
▪ The EU Delegation and its staff in Benin are very acquainted with the blending modality since almost a decade, through avant-garde projects with the EIB, GIZ and later the AFD which where de facto 'blending embryos'. They didn't follow as such an EU blending training so far, but they will in Accra in April 2016. They note the quick evolution of blending instruments (ITF, SE4ALL, AFIF…) – they were informed about these by HQ. The EU Delegation and AFD staff in Benin found the EU guidance on blending sufficiently clear. (I-2.1.5) ▪ The EU Delegation in Togo is less acquainted with blending notably given the fact that it has been little involved in blending projects so far (the Benin-Togo Power Rehabilitation project was mainly managed by the EUD in Benin and the planned blending project is still in the approval phase). They were briefed on blending in 2014 as part of an EU regional infrastructure seminar in Addis Ababa (by CODELA100). They didn't follow an EU blending training as such, but they will in Accra in April 2016. AFD staff in Togo is very well acquainted with blending. (I-2.1.5) ▪ The recent Atlantic Project led by AFD (prepared in 2013) is the result of a joint effort of the AFD, EUD and national actors (notably the government and SBEE). EU support was factored into the project since its very inception. It appeared from the first simulation that additional EU funding would enable to increase the reach of the programme – from 57 to 105 localities in rural areas. During these initial talks, the government further agreed to lift its 2% management fee. (I-2.2.2) ▪ Atlantic Project: EUD and AFD staff converge in saying that their longstanding collaboration and close interaction on energy matters in Benin grandly facilitated the

[99] Benin nor Togo currently have a programme with the IMF, but they use the IMF calculation sheet in anticipation of a new programme.

[100] Coordination pour les DUE de l'Afrique

design and launch of this new project. It also resulted in a single project for the EU, AFD and EIB. (I-2.2.2)

- The EU's first 'blending' projects in Benin and Togo were in line with the EU's regional indicative programme (RIP)[101], and then, recently, with the national indicative programme (NIP) 2014-2020 in Benin and Togo, in which energy is one of the three priority sectors (as part of the Sustainable Energy for All initiative - SE4All). (I-2.3.4)
- The EU's blending projects in Benin and Togo were considered priority projects by their governments. The support to ERERA and the WAPP Master Plan were considered priorities by ECOWAS. (I-2.3.4)

Desk hypothesis EQ2	Evidence
Project selection and approval is aligned with policy priorities	This is clearly the case for all four projects examined.
That the training has been sufficient	EUD staff in Benin and Togo didn't attend proper blending trainings so far. It may have been useful for staff of the EUD in Togo in particular – staff from the EUD in Benin was already acquainted with blending. Staff from both Delegations plan to attend the blending training in Accra in April 2016.
That IFIs and EUDs are clear on the criteria	IFI and EUD staff met felt comfortable with the criteria's clarity.

4.3 EQ 3:Financial efficiency

Main findings EQ3

- Atlantic Project: No precise calculation or formula has been found for determining the grant amount (20M€ out of 58M€), but the grant roughly covers the amount of the rural component. However, the project financing cannot be disentangled as such. Many stakeholders considered that without the EU blending contribution, the entire project would most probably not have taken place, and in any case not its rural electrification component.
- Benin-Togo Power Rehabilitation (LCO component): the EIB loan was a concessional "IMF compatible" loan. As such, it benefited from a grant element of at least 35%: an interest rate subsidy from the EU ITF (12.25 M€ or 36% of the 35 M€ EIB loan). No precise calculation or formula has been found for determining the grant amount either. Project documentation shows that the project was financially sustainable without the grant, but that it would then have left little room for further investments in the medium to long term without a tariff adjustment. Stakeholders met converge in considering that the EU's interest rate subsidy was important for increasing the project's concessionality level and to make it happen. Economic profitability was considered high: the global project's ERR reached 12%, and 13% when including associated carbon emission savings. The economic profitability of the LCO component is even considered 'very high', as rehabilitation of the coastal 161 kV lines is a key element for secure electricity supply of Benin and Togo.
- WAPP Master Plan and ERERA: Projects documentation indicate that grant amounts have been based on estimated costs for revising the WAPP master plan, and for establishing this regional regulatory authority ERERA. All stakeholders met converge in saying that donor grant funding was required: it would have been difficult to fund both

[101] The 2008-2013 RIP for West-Africa has "infrastructure, transport, energy" as second focal sector.

projects through ECOWAS' budget or contributions from its Member States. It is however not fully clear why these two all-grant supports were funded by a blending facility (ITF) vs. the EU's (all-grant) regional envelope.

Desk hypothesis EQ3	Evidence
Assembling the financial package is pragmatic as well as quant driven	This seems indeed to be the case in all four projects examined.
Target leverage levels should be implicit in grant request	No specific leverage target level noticed in grant request.

4.4 EQ 4: Instruments

Main findings EQ4
▪ WAPP and ERERA: Several key actors met in Benin considered that the TA provided to the update of the West-African Power Plant (WAPP) as well as to the initial regulation activities of the ECOWAS Electricity Regulatory Authority (ERERA) was most relevant. TA was the most relevant blending instrument given the nature of the activity. (JC 4.1) ▪ Atlantic Project: The EU investment grant to this project is substantial: more than 30% (20M€ EU, 20M€ AFD and 18M€ EIB). An investment grant seems to be the most appropriate instrument given the size of the support. (JC 4. 2) ▪ Benin-Togo Power Rehabilitation (LCO component): see EQ3. No clear rationale has been found on the choice of IRS vs. an investment grant. (JC 4.2)

Desk hypothesis EQ4	Evidence
TA was partner owned and demand led	TA was necessary for these two ECOWAS priority projects for the establishment of a functional energy market in West-Africa. However, cooperation from individual ECOWAS member countries was limited with regard to establishment of the regional regulatory authority and its national counterparts.
Partner informed and took part in choice of instrument	ERERA and WAPP: TA was the obvious instrument. Atlantic Project: idem with Investment Grant. Benin-Togo Power Rehabilitation (LCO component): little information available.

4.5 EQ 5: Policy reforms

Main findings EQ5	
▪ In both Benin and Togo, there is no national sector policy or strategy in the field of energy. However, energy is a priority sector for both governments. For instance, (i) they strongly support EU blending projects in energy; and (ii) in 2015, the government of Benin signed with the Millennium Challenge Corporation the "Benin Power Compact"[102]; this five-year grant specifically focuses on electric generation and distribution and is worth $375 million. ▪ The EU will support the government of Benin under the 11th EDF in the energy sector in three ways: (i) classic project approach for actor capacity building, (ii) organizational reorganization, (iii) institutional framework strengthening (18m€ TA RECASEB). It aims hereby at setting up a project portfolio in a suitable environment. ▪ Policy dialogue in Benin takes place through the "concertation framework" (cadre de concertation) for the energy sector, which regroups donors in this field. They conduct each year an Energy Sector Review, during which the governments presents its plans and donors their observations, concerns and suggestions. Preparatory meetings are held, which is an opportunity for closer interaction. A key informant mentioned that the quality of this dialogue has sharply improved since the EU took over (from the WB) the presidency of this concertation framework with the AFD as co-chair. EU and AFD work in close interaction in this sector in Benin and are primary drivers of dynamics in this sector. The EU's role is underpinned by its interventions in the energy sector, through the Energy Facility, Water Facility and blending projects (ITF). The EUD notes for instance that the Atlantic Project is of strategic importance in the context of relaunching the energy sector dialogue. ▪ The EU's doesn't provide budget support in the energy sector in Benin, but this is not felt by the EUD as detrimental to the quality of the (already strong) policy dialogue in the energy sector in Benin. Many (EU, international and national) stakeholders in Benin and Togo considered blending a much more appropriate modality than budget support for supporting the electricity sector in Benin. Indeed, (i) it makes sure that funding really benefits the sector and (ii) that it does on time – untimely payment by the government has caused many difficulties to private sector suppliers in earlier times. In terms of capacity building on Beninese side, blending reportedly doesn't directly strengthen capacities at the ministry as BS aims to do; still, the blending projects were implemented by the national electricity distribution company (SBEE), thereby reinforcing local capacities. ▪ The revised WAPP master plan (supported by blending TA) is providing a long-term vision on a regional electricity network in West-Africa. It is hence a key building stone for any electricity/energy policy at national and regional levels. ▪ Similarly, the operationalization of a regional West-African regulatory authority (ERERA, supported by blending TA) is a key building stone for any electricity/energy policy at national and regional levels. Indeed, it creates the conditions for a regional electricity market, supporting national regulators, etc. ▪ A regulatory authority has been created in Benin recently. But is not yet operational in the absence of any funding; informants mentioned that this may owe to lack of willingness on government side to have an independent authority.	
Desk hypothesis EQ5	**Evidence**

[102] "Compacts" are large, five-year grants for countries that pass Millennium Challenge Corporation's eligibility criteria. Benin has already completed one Compact (2006-2011). See more at : https://www.mcc.gov/where-we-work/country/benin

Blending usefully complemented other EU policy-related work	The Atlantic project in Benin is considered of strategic importance by the EU and AFD in the context of relaunching the energy sector dialogue. The case is less clear for the other projects examined.
Blending and BS together are a more powerful factor of change than either alone	In Benin the EU doesn't provide budget support in the field of energy, but this is not felt by the EUD as detrimental to the quality of the (already strong) policy dialogue in this sector in Benin. Difficult to say in Togo: the EU is entering the energy sector with a blending project, and there is no BS yet or planned in this field.

4.6 EQ 6: Project quality

Main findings EQ6

JC 6.1

- Atlantic Project:
  - AFD has conducted a feasibility study on own funding ("avant-projet détaillé", January 2015). This study focuses on technical aspects. It includes project targets and provide some rough baseline data in terms of electrification rates. Analysis isn't much explicit/detailed in terms of risks or of reaching most vulnerable people. Nevertheless, AFD completed a thorough environmental and social impact analysis (ESIA) one year later (January 2016). This study shows that the projects' negative impacts are of 'medium importance' – not of major importance possibly impeding implementation. The negative impacts should reportedly be largely compensated by positive impacts on the medium to long term at the local, departmental and national levels.[103] The study requests an additional budget increase of 92.547.000 FCFA (141k€) for mitigation measures. It is not clear at this stage whether it has been provided.
- Benin-Togo Power Rehabilitation (LCO component):
  - A series of environmental impact studies have been conducted in 2008. They are themselves based on studies of the course of the electric lines conducted by ecologists and sociologists back in 1997 which "enabled to very significantly reduce potential [environmental] impacts of the line" as per the 2008 study. They were followed by technical and economic feasibility studies completed in March 2009 by the binational organism named CEB which is in charge of the production, importation and transmission of electricity in the two countries. In October and November 2010 'Expert reports' were completed by the French company EDF, which was contracted for QA of the project. The German company Intec was also contracted for QA. Completion reports and social & environmental audits were conducted for most components of the project in 2015. The quality of the social and environmental audits was questioned by the EIB, which led to some delay.
  - The environmental and social impact assessments were of fair quality, as also attested by EIB documentation in 2009. The main environmental impact related to the loss of (not protected) biomass; social impacts to resettlement of population and loss of agricultural terrains. Those were deemed reasonable/limited by documentation and most persons met with regard to

[103] There is no specific risk analysis relating to climate change.

expected economic and social benefits of the project.[104] Environmental and social audits at completion of the project (2015) show that envisaged mitigation measures have largely been conducted. (I-6.1.1, 6.1.4)

- The project doesn't target the most vulnerable as such – it addresses global electricity challenges for Togo and Benin, i.e. the rehabilitation of key electric lines and substations. (I-6.1.2)
- Technical feasibilities studies were of good quality. Baseline data has been collected. (I-6.1.3, I-6.1.4)
- It is not clear from project documentation by whom they were funded. Note. The blending contribution consisted in interest rate subsidy. (I-6.1.5)

▪ JC less relevant for WAPP and ERERA projects, as these were TA on a regional masterplan and a regional regulatory authority.

JC6.2

▪ Atlantic Project
  - I-6.2.1: AFD uses its own practices/procedures, not the national ones, as a precondition to the loan. National counterparts appreciate it because it should fasten the process.
  - I-6.2.2: Project stakeholders cited five innovative features: 1/ it will experiment the extension of the network to lakeside villages; 2/ a major part of the network will be underground – it wouldn't be the first time in Benin but still, this is unusual; 3/ it will use optic fibre for all communication systems of the network: 4/ it will introduce pre-paid electric meters for the first time in Benin; 5/ they are evaluating an alternative solution with GIS (Gas Insulated Switchgear) substation.
  - I-6.2.3: No explicit mention of technical or safety audits have been found in project design documents.
  - I-6.2.4: AFD has conducted and funded a thorough environmental and social analysis. In addition, EIB poses as precondition to have an ESIA certificate[105] (and legal advice of the government). The national counterparts faces difficulties to provide this easily, which creates a delay.
  - I-6.2.5: This project has been conceived since its very inception by the EU together with the AFD. It would be difficult to attribute/distinguish any benefit to the sole EU/blending contribution.
▪ Benin-Togo Power Rehabilitation (LCO component): detailed project design and costing documents exist. Documents and site visits confirmed that features of this rehabilitation project complied overall with best practices (e.g. surge-arresters added and fence safety distance reviewed).
  - (I-6.2.2) Project stakeholders cited two innovative features: 1/ it will use optic fibre for remote control of the system, 2/ of which they will offer the use for rent to telecom operators.
  - As mentioned above it is not clear from project documentation by whom preliminary studies were funded. (I-6.2.5)

JC6.3

▪ Atlantic Project: A technical assistant will be hired by the AFD through a separate contract (which hasn't been signed yet). No explicit mention of technical or safety audits have been found in project design documents. Construction works have not started yet. There is

[104] See EQ3: Economic profitability was considered high: the global project's ERR reached 12%, and 13% when including associated carbon emission savings. The economic profitability of the LCO component is even considered 'very high', as rehabilitation of the coastal 161 kV lines is a key element for secure electricity supply of Benin and Togo.

[105] As written in the Finance Agreement: "the reception of a certified copy of the Environmental and Social Documents" (p. 21)

some delay already in the procurement procedure. However, much less procedural delays are expected than in earlier AFD-EU blending projects (under the Energy Facility), given that there is now a single set of procedures, i.e. that of the AFD. Indeed, EU blending is provided through an agreement with AFD, which itself has a contract with the Government of Benin for both AFD and EU contributions.

- Benin-Togo Power Rehabilitation (LCO component): Quality control performed by a technical assistant hired by the EUD through a separate contract. The project also benefited from the expertise of the French company EDF, which was contracted for supervising the works and produced 'expert reports'. A few implementation issues and delays were observed, but these were overall not detrimental to the global project quality (I-6.3.2).

JC6.4

- Atlantic Project: Implementation of operations and business plans for the completed assets (I-6.4.1). AFD will provide a technical assistant for operations and maintenance during a period of 3 years (I-6.4.2). The national counterpart (SBEE) will compile a list of all its capacity development needs (I-6.4.3). The project has an operations and maintenance plan. Note. The project hasn't started physical activities yet (I-6.4.4). This project has been conceived since its very inception by the EU together with the AFD. It would be difficult to attribute/distinguish any benefit to the sole EU/blending contribution (I-6.2.5).
- Benin-Togo Power Rehabilitation (LCO component): the project itself was a rehabilitation project, aiming at extending the lifetime of electricity network installations for another two centuries (I-6.4.4). It also enabled to equip the substations with a remote control system. It further provided training to the operators, although a case was reported of insufficient training of local staff by the supplier. (I-6.4.3) Note. I-6.4.4 not applicable as this is a rehabilitation project.

JC6.5

- Atlantic Project: This project has been conceived since its very inception by the EU together with the AFD. It took account of the lessons from earlier (pre-)blending experience on an Energy Facility and a Water Facility project. It would be difficult to attribute/distinguish any benefit to the sole EU/blending contribution (I-6.5.3). Stakeholders considered that without the EU blending contribution, (i) the project would have been much more limited in scope (not including rural areas); and (ii) additional features like AFD-funded TA may not have been included or at least less easily (I-6.5.2).
- Benin-Togo Power Rehabilitation (LCO component): The blending contribution consisted in interest rate subsidy. It is difficult to assess to what blending specifically contributed in terms of project quality (I-6.5.2 and I-6.5.3)

Desk hypothesis EQ6	Evidence
In comparison to what other modalities (and why) blending (does/does not) deliver better quality at the various stages of the project cycle:	Blending projects examined reflected globally high project quality. However, it is not easy to distinguish specific contributions of blending to higher project quality.
In comparison to what other modalities (and why) does blending (not) deliver: - greater sustainability - greater affordability (to beneficiaries) - better viability/rates of return (to IFIs) - better impacts (on poverty alleviation) - more focus on the needs of vulnerable groups	Atlantic Project: Many stakeholders considered that without the EU blending contribution, the entire project would most probably not have taken place, and in any case not its rural electrification component. Benin-Togo Power Rehabilitation (LCO component): Project documentation shows that the project was financially sustainable without the grant, but that it would then have left little room for further investments in the medium to long term without a tariff adjustment. Stakeholders met converge in considering that the EU's interest rate subsidy was important for increasing the project's concessionality level and to make it happen. In terms of comparison with budget support: many (EU, international and national) stakeholders met in Benin and Togo considered blending a much more appropriate modality than budget support for supporting the electricity sector in Benin. Indeed, (i) it makes sure that funding really benefits the sector and (ii) that it does on time – untimely payment by the government has caused many difficulties to private sector suppliers in earlier times. In terms of capacity building on Beninese side, blending reportedly doesn't directly strengthen capacities at the ministry as BS aims to do; still, the blending projects were implemented by the national electricity distribution company (SBEE), thereby reinforcing local capacities.
EUDs are (not) directly involved in all stages of the blending cycle	Atlantic project: The EUD was actively involved in the identification and design phases of this project, for which it provided a substantial investment grant (20m€ out of 58m€). It will be less in the implementation phase (to be started), in which it intends to leave follow-up during implementation to the lead IFI (AFD). EUD will remain involved through the Steering Committee. Benin-Togo Power Rehabilitation (LCO component): the EUD was less involved in this project, to which it contributed essentially with an interest rate subsidy.
IFIs have (in)adequate resources for effective policy dialogue	The AFD clearly did have such capacity in Benin for the Atlantic Project.
IFIs have (in)adequate protocols, policies and procedures to ensure adequate due diligence at the various stages of the	No specific issue observed. For the Atlantic Project, national counterparts appreciate the fact that AFD uses its own practices/procedures as a precondition

project cycle (including response to non-delivery of commitments)	to the loan, as it fastens the process. EIB poses as precondition for this project to have an ESIA certificate[106] and legal advice of the government - the national counterparts faces difficulties to provide this easily, which creates a delay.
There are (in)consistent policies and quality requirements between different IFIs and the various EU investment facilities	Atlantic Project: EUD and AFD staff converge in saying that their longstanding collaboration and close interaction on energy matters in Benin grandly facilitated the design and launch of this new project. It also resulted in a single project for the EU, AFD and EIB. There is now a single set of procedures, i.e. that of the AFD. Indeed, EU blending is provided through an agreement with AFD, which itself has a contract with the Government of Benin for both AFD and EU contributions. An informant mentioned his concern that EU priority sectors would dominate the field of blending and that blending's spirit of having IFIs generate/lead projects may be at threat. Indeed, blending projects in Africa were initially initiated through the ITF at HQ level. Now and in future, with the AfIF, blending projects will be mainly funded under the bilateral cooperation (NIP). Experience from projects under preparation show that they now have to pass through the usual EU project cycle and comitology (intervention fiche, Quality Support Group…).
That potential beneficiaries (i.e. partner governments and institutions) and EUDs do (not) understand the differences and potential benefits of blending in comparison to other financing modalities	IFIs met and the EUD to Benin are very acquainted with the pros and cons of blending as a modality. This is less the case with the EUD in Togo as there has been little experience so far in the country, which doesn't mean either that it is an issue. On the side of the government and national institutions, few interlocutors had a clear view on blending, considering it essentially *cuisine interne* on donors/financiers side.
IFIs have (not) demonstrated application of mitigation/remedial measures to problems that emerge during project implementation	A few (positive) cases of reactivity have indeed been noted – no issue has been observed.

4.7 EQ 7: Finance Barriers

N/A in Benin and Togo

[106] As written in the Finance Agreement: "the reception of a certified copy of the Environmental and Social Documents" (p. 21)

4.8 EQ 8: Aid effectiveness and visibility

Main findings EQ8

JC8.1

- Atlantic Project:
  - I-8.1.1: Both EU and AFD are active since years in the energy sector in Benin (the EU through the Energy and Water Facilities, and through the ITF/SE4All, not through the NIP). Energy is a focal sector in the new NIP.
  - I-8.1.2: There has been very close interaction between EUD and AFD since a previous access to energy project under the Energy Facility. Close collaboration on the Atlantic Project identification and design between EUD and AFD, and with the national counterpart (SBEE)
  - I-8.1.3: The EUD intends to leave follow-up during implementation to AFD as lead financier. EUD will remain involved through the Steering Committee. Note. Project implementation hasn't fully started yet.
  - 8.1.5: Cf. EQ5: A key informant mentioned that the quality of policy dialogue in the energy sector has sharply improved since the EU took over (from the WB) the presidency of the concertation framework with the AFD as co-chair. EU and AFD work in close interaction in this sector in Benin and are primary drivers of dynamics in this sector.
- Benin-Togo Power Rehabilitation (LCO component) project:
  - I-8.1.1: The EU was not active in Energy in Togo before the 11th EDF and this project. The LCO project was the EIB's very first project in Togo.
  - I-8.1.2: The feasibility study was funded by the BOAD (West-African Development Bank).
- ERERA and WAPP: one may argue that funding through respectively the AFD and the EIB is an evidence of coordination in itself, and enabled to limit the number of interlocutors for the counterparts, i.e. that the regional organisations didn't have to deal with yet another donor in terms of procedures, management time, etc.
- I-8.1.6: An informant mentioned his concern that EU priority sectors would dominate the field of blending and that blending's spirit of having IFIs generate/lead projects may be at threat. Indeed, blending projects in Africa were initially initiated through the ITF at HQ level. Now and in future, with the AfIF, blending projects will be mainly funded under the bilateral cooperation (NIP). Experience from projects under preparation show that they now have to pass through the usual EU project cycle and comitology (intervention fiche, Quality Support Group…).

JC8.2

- I-8.2.1. Atlantic Project: the AFD is the lead financier of this project funded by EU-AFD-EIB. The EU blending contribution is being contracted through the AFD, not directly with the Government of Benin[107]. EIB has its own agreement with the government. Administrative steps are hence reduced for the partner country from 3 (EU, AFD and EIB) to 2 partners (AFD and EIB). Still, the national counterpart considers that administrative steps are numerous and demanding, in particular those relating to EIB conditions – this doesn't relate to blending as such, however, but to general loans conditions.
- I-8.2.2 Atlantic Project: See 8.2.1.

[107] As written in the Credit Agreement: "At the margins of the Credit, the Lender [the AFD] has agreed to consent to the Borrower [the Republic of Benin] a 20M€ subsidy (…). Subsidy obtained from the EU ITF, under the SE4All programme" (p. 5)

- I-8.2.3 Benin-Togo Power Rehabilitation (LCO component): EIB procedures apply – no additional procedures owing to EU support (interest rate subsidy).
- ERERA and WAPP: the point on transaction costs is less relevant for these two regional and peculiar 'projects'. But, as for JC8.1, one may argue that funding through respectively the AFD and the EIB enabled to limit the number of interlocutors, i.e. that the regional organisations didn't have to deal with yet another donor in terms of procedures, management time, etc.

JC8.3

- Atlantic Project:
  - No visibility clauses were included in the credit agreement and in the funding agreement between AFD and the Republic of Benin; nor in the funding agreement between EIB and the Republic of Benin. It remains to be verified whether there were any visibility provisions in the EU/ITF-AFD agreement (documents not at our disposal). (I-8.3.1)
  - Visibility features or activities include notably the following: EU ambassador participated to initial press conference; EU is represented in the project's Steering Committee; ADF is preparing a full communication plan; and EU logo will be featured in project documents and sites (although not applicable yet as project is still at inception phase). (I-8.3.2 and I-8.3.4)
  - Meetings with stakeholders at this initial stage of the project shows that the project is perceived as either the "AFD project" or the "European project". The representative of the national body supported was very well aware of the joint EU-AFD (and EIB) funding, and of EU visibility clauses. (I-8.3.5)
- Benin-Togo Power Rehabilitation (LCO component):
  - No visibility clauses were included in the loan agreement between EIB and the Republic of Benin and the Republic of Togo. It remains to be verified whether there were any visibility provisions in the EU/ITF-EIB agreement (documents not at our disposal). (I-8.3.1)
  - Overall, the EU ambassador to Togo is frequently broadcasted in national media. However, no EU logo visible on sites or in documents (I-8.3.2, I-8.3.4).
  - This project is perceived as the "EIB project" (the LCO component is funded 100% by the EIB, except for the EU interest rate subsidy which comes on top if one may say so). Most stakeholders met were not aware of any EU contribution to this project. Nevertheless, EIB perceived as a European actor. One interviewee mentioned that the fact that the blending support to LCO is managed centrally through the ITF and not through the Delegation may explain in part this little visibility of the Commission/EUD. (I-8.3.5)
- ERERA and WAPP: little information could be found on EU visibility, including in the EU-IFI agreements. From interviews in the few countries visited in the region it appears that it is clear that these initiatives were funded by donors, but there is no strong awareness of the EU in itself.

Desk hypothesis EQ8	Evidence
Preparation is time consuming but leads to better projects	No specific mention of particularly time-consuming preparation owing to blending (EIB conditions led to delays in the Atlantic Project, but this doesn't relate to the grant component of the loan). There is evidence however that the strong collaboration over many years of the AFD and the EUD contributed to a sound design of the Atlantic Project.

Management costs were inferior to pure loans	Atlantic Project: The EU blending contribution being contracted through the AFD, i.e. not directly with the Government of Benin, administrative steps are reduced for the partner country. This point is less applicable/relevant for the other three projects examined.
Dissemination of knowledge has led to visibility	This could be observed for the preparation and launch of the Atlantic Project, in which the EU took an active role in visibility (press conference; project's Steering Committee; etc.). It seems not verified however for the LCO, ERERA and WAPP projects, in the absence of high visibility or information on this.

4.9 EQ 9: Results

Main findings EQ9

JC9.1 (design conducive to results)

- I-9.1.1 (clear transmission chain)
  - Atlantic Project and Benin-Togo Power Rehabilitation (LCO component) : although not explicit in project design documents, the transmission chain is sound overall, in the sense that increased access to electrical energy in particular in rural areas is known to contribute to poverty reduction. However, the question of the tariffs, beyond the direct influence of the project, is to be considered carefully in future as it may become prohibitive for the poor if excessive (in the Atlantic Project in particular).
  - ERERA and WAPP: clear transmission chain, in the sense that a better master plan for regional electricity market (WAPP) and regional and national regulatory authorities (ERERA) are essential conditions for an effective electricity market in the region, and hence overall development and poverty reduction.
- I-9.1.2 (geographical coverage):
  - Atlantic Project: The project is interesting in this perspective in two ways: 1/ blending of EU and AFD funding enabled to extend the coverage of the project beyond urban areas (focus of AFD) to rural areas (focus of EU). Stakeholders met were explicit on the fact that the project was extended to rural areas specifically on demand of the EU – rural areas being a focus of the NIP. 2/ the AFD insisted heavily on focusing on one single province vs. "saupoudrage". Most stakeholders considered this was very relevant and appreciated AFD's pressure.
  - Benin-Togo Power Rehabilitation: the geographical coverage was relevant, i.e. to support a major backbone project for electricity exchange between those to two countries.
  - WAPP and ERERA: geographical coverage was relevant in two ways: 1/ the electrical energy issue is high in West-Africa, 2/ it was relevant to support regional institutions.
- I-9.1.3 and I-9.1.4 (focus on the poor):
  - Atlantic Project: Having a rural component, poor people are directly targeted in the design of this project. The question of the 'poorest of the poor' may need further attention, in particular with regard to electric meters.
  - LCO, WAPP and ERERA: These projects don't target poor people directly, but rather the functioning of an overall electricity market in West Africa. Addressing this global constraint should actually benefit the poor, provided that subsequent initiatives/project have a pro-poor focus. A key informant however noted that

for the Benin-Togo Power Rehabilitation (LCO component) the project was too much driven by internal/top-down considerations and not enough "people-driven", i.e. geared towards meeting most pressing needs of the populations.

JC9.2 (implemented as planned)

- Benin-Togo Power Rehabilitation (LCO component): The LCO component has been completed at roughly 90%-95% although with some delays and minor issues. This is mentioned in project documents and is confirmed by interviews and sites visits conducted.
- ERERA: A series of outputs have been achieved (e.g. recruitment of staff, establishment of internal procedures, preliminary studies, etc.), but several haven't. The project has been affected by implementation issues. One of the major constraints it faced was the political willingness of ECOWAS member states to effectively increase regulation at the regional level and in their own countries. Nevertheless, a national regulation authority which we met (in Togo) appreciated the training given by ERERA to national regulation authorities in various fields of regulation.
- WAPP: master plan revised as planned. Its quality was highly praised by all parties met.
- Atlantic Project: N/A (hasn't yet started); slight delay owing notably to completion of EIB conditions.

JC9.2 (development results)

- Benin-Togo Power Rehabilitation (LCO component): Direct beneficiaries are mainly the national electricity distribution companies – they perceived positively the improvement brought by this project: the rehabilitation introduced better services in the electricity supply with less electricity cut offs. Operation teams have been trained to operate new type of equipment.
- WAPP: The revision of the master plan was very much valued, and does improve indeed the planning and coordination of national/regional projects for establishing a regional electricity market in West Africa as it was known by all parties met during the mission and was considered as the reference framework. Projects conducted in different countries/regions are often aligned to this masterplan – they are hence heading in the right direction, which is very valuable in the mid to long term perspective. Overall, it generated four benefits: a) a project pipeline of some substance (about 6 projects); b) a 'financiers platform' where external donors/IFIs can dialogue with ECOWAS counterparts; c) a policy platform with the ECOWAS; and d) an environmental and social filter – including biodiversity dimensions. However, there is currently and in the short term no regional market, mainly in the absence of sufficient energy supply. Ultimate beneficiaries (populations of West Africa) are hence not yet reached much at this stage.
- ERERA: Development results are limited so far, in that there is currently no strong regional regulation activity, and that increased regulation capacities at country level have been limited.
- Atlantic Project: N/A (hasn't yet started).

JC 9.10:

- Atlantic Project: As designed, the project should supply reliable energy to rural areas of the Atlantic province, which should lead to (significant) job creation in this region.
- Benin-Togo Power Rehabilitation (LCO component): The project itself only created temporary jobs. Better energy supply in both countries in the coming decennia should however contribute (sustainably) to economic growth and employment.
- ERERA and WAPP: N/A

JC 9.4; JC 9.5; JC 9.8 and JC 9.9: Not applicable

JC 9.7: See JC 9.1

Desk hypothesis EQ9	Evidence
Project design was often underpinned by in-depth quality work but could have benefited from a more thorough reflection in the transmission chain of intended effects beyond the detailed pre-assessments realised through the feasibility studies	This is true for the Atlantic Project only with regard to the question of the electric meters, which would need more detailed examination. Design was sound for the rest. It is also true for the ERERA project, notably with regard to drivers and incentives at national level. Design was globally ok for WAPP and Benin-Togo Power Rehabilitation (LCO component).
Efforts were devoted to take risks into account but risks were generally not sufficiently well anticipated, and/or mitigating measures were insufficient	See point above.
The development impact of blending projects was de facto minimised by the insufficient poverty-lens of blending projects	This is not validated for this mission.
Monitoring of results was uneven across projects and IFIs and often insufficient	Monitoring was ok for the projects examined. N/A for the Atlantic Project (which is about to start).

Annexes

Annex 1: Mission Agenda

Field mission in Benin	
8 February 2016	
08h30 - 10h00	Meeting with NEUBERT Joel (EUD Benin)
10h00 – 11h00	Meeting with the expert and the project manager of the AFD at the EUD Benin
11h00	Discussions at the AFD office
16h00	Meeting with Mr. Badarou, Minister of Energy Assistant
9 February 2016	
09h00 – 11h00	Meeting with Mr. Machoudi, Coordinator of Atlantic Project – Benin National Electricity Company (SBEE)
14h00 – 15h00	Meeting with Mr. Assogba, Project Manager – National Investment Regulation Agency of Benin (CAA)
15h00 – 17h00	Site Visit of Vèdoko 161 kV Substation Rehabilitated by Benin and Togo Power Rehabilitation Project (LCO component) in suburbs of Cotonou (Benin)
18h00 – 19h00	Meeting with Mr. Gbedey (World Bank)
Field mission in Togo	
10 February 2016	
09h00-11h00	Site Visit of MOME AGOU 161 kV Substation Rehabilitated by Benin and Togo Power Rehabilitation Project (LCO component) in southern part of Togo
14h00	Meeting with Mr. M. Tiassou (EUD Togo)
11 February 2016	
09h00 – 10h30	Meeting with Mr. Salifou Managing Director of Benin and Togo Production and Transportation of Electricity Company (CEB)
10h30 – 12h00	Meeting with Mr Yerima, Coordinator of EU projects at Togo Planning Ministry (CAON)

12h20 – 13h30	Meeting with Mr. Tiem Bolidja, Planning and Investment Manager in Togo National Electricity Company (CEET)
15h00 – 16h00	Meeting with Mr. GBANDEY Gbaty Tiadja, Strategy and Statistic Manager in National Energy Department of Togo
17h00 – 18h00	Meeting with Mr Benoit Lebeurre Director of AFD (Togo)
12 February 2016	
08h30 – 09h30	Meeting with Mr.Nyaku, Managing Director of National Electricity Regulation Agency of Togo
10h00 – 12h00	161 kV Substation Visit visit – Aflao (Togo)
15h00 – 16h00	Meeting with Mr Amoumoun Program Manager at African Development Bank (BAD)
Field mission in Ghana	
16 February 2016	
10h00 – 11h00	Meeting with Mrs. Ifey Ikeonu, Ag. Chairperson ECOWAS Regional Electricity Regulatory Authority (ERERA), and colleagues
25 February 2016	
11h00 – 11h40	Phone meeting with Mr Simon Rolland, Programme Officer at the EUD in Ghana

Annex 2: List of persons met

Name, Surname	Organisation	Function
Charles KOUMAPLE	ABERME	Directeur Général
Melvine AHOUISSOUSSI	ABERME	Directrice de l'électrification rurale
Gaston HOUNTONDJI	AFD	Economiste - Chargé de projets
Gaston HOUNTONDJI	AFD (Agence Française de Developement – Bénin)	Economiste - Chargé de projets
Benoit Lebeurre	AFD (Agence Française de Developement) – Togo	Directeur
AMOUMOUN Adam	African Development Bank (ADB)	Chargé de programme
Charles KOUMAPLE	Agence Béninoise d'Electrification Rurale et de Maitrise d'Energie - ABERME (Benin Rural Electrification Agency)	Directeur Général
Melvine AHOUISSOUSSI	Agence Béninoise d'Electrification Rurale et de Maitrise d'Energie - ABERME (Benin Rural Electrification Agency)	Directrice de l'électrification rurale
Ifey IKEONU	ARREC	Acting Chairperson
Alagi Basiru Gaye	ARREC	Membre du Conseil
Oumar BANGOURA	ARREC	Principal Legal Regulatory Expert
Yawovi NEGBEGBLE	ARREC	Principal Power Regulatory Officer
Komla Théophile NYAKU	ARSE	Directeur Général Pi.
Abbas ABOULAYE	ARSE	Directeur Technique
Komla Théophile NYAKU	Autorité de Régulation du Secteur de l'Electricité – ARSE (National Electricity Regulation Agency of Togo)	Directeur Général Pi.
Abbas ABOULAYE	Autorité de Régulation du Secteur de l'Electricité – ARSE (National Electricity Regulation Agency of Togo)	Directeur Technique
AMOUMOUN Adam	Banque Africaine de développement (BAD)	Chargé de programme

Name, Surname	Organisation	Function
Eunock Lionel ASSOGBA	CAA	Administrateur en Gestion des Entreprises – Chargé de projet à la direction de la mobilisation CAA
Aude GLADYS ALLIOZA AKOGBETO	CAA	Administratrice, Gestion de Projets, Chef Service négociations et Conventions, Direction des Etudes
Cossi Aquime IROUKOURA	CAA	Economiste – Master en Marchés Publics et Partenariat-Public-Privé – Chef service Négociations des conventions en Devises
Eunock Lionel ASSOGBA	Caisse Autonome d'Amortissement – CAA (National Investment Regulation Agency of Benin)	Administrateur en Gestion des Entreprises – Chargé de projet à la direction de la mobilisation CAA
Aude GLADYS ALLIOZA AKOGBETO	Caisse Autonome d'Amortissement – CAA (National Investment Regulation Agency of Benin)	Administratrice, Gestion de Projets, Chef Service négociations et Conventions, Direction des Etudes
Cossi Aquime IROUKOURA	Caisse Autonome d'Amortissement – CAA (National Investment Regulation Agency of Benin)	Economiste – Master en Marchés Publics et Partenariat-Public-Privé – Chef service Négociations des conventions en Devises
Djibril SALIFOU	CEB –Communauté Electrique du Bénin	Directeur Général de la CEB
Mokpokpo Ama ATRI	CEB(visite Poste de Vêdoko, Mome Hagou et Aflao)	Chef Section Projet et Développement
Bolidja TIEM	CEET	Directeur de la planification et des Investissements
Esso-Wazina YERIMA, Ganyo Atchou	Cellule d'Appui à l'ordonnateur National du Fonds Européen de Développement - MPDAT-CAON	Coordonnateur de la CAON
Mokpokpo Ama ATRI	Communauté Electrique du Bénin - CEB (Benin and Togo Production and Transportation of Electricity Company) - 161 kV Substation of Vêdoko, Mome Hagou et Aflao site visit	Chef Section Projet et Développement
Djibril SALIFOU	Communauté Electrique du Bénin - CEB (Benin and Togo Production and Transportation of Electricity Company)	Directeur Général de la CEB

Name, Surname	Organisation	Function
Bolidja TIEM	Compagnie Energie Electrique du Togo – CEET (Togo Electricity company)	Directeur de la planification et des Investissements
GBANDEY Gbaty Tiadja	Direction Générale de l'Energie	Chef Division des Statistiques et des Stratégies
Ifey IKEONU	Ecowas Regional Electricity Regulatory Authority (ERERA)	Acting Chairperson
Alagi Basiru Gaye	Ecowas Regional Electricity Regulatory Authority (ERERA)	Membre du Conseil
Oumar BANGOURA	Ecowas Regional Electricity Regulatory Authority (ERERA)	Principal Legal Regulatory Expert
Yawovi NEGBEGBLE	Ecowas Regional Electricity Regulatory Authority (ERERA)	Principal Power Regulatory Officer
Joel NEUBERT	EU Delegation in Benin	Deuxième Secrétaire Chef de Section "Infrastructures"
Tété Djimedo TIASSOU	EU Delegation in Togo	
Raoufou BADAROU	Ministère de l'énergie	Assistant du ministre de l'énergie
Esso-Wazina YERIMA, Ganyo Atchou	MPDAT-CAON	Coordonnateur de la CAON
GBANDEY Gbaty Tiadja	National Energy Departement of Togo	Chef Division des Statistiques et des Stratégies
Moussa MACHOUDI	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Coordinateur du projet AFD/BEI/UE « Restructuration et extension des réseaux de la SBEE à Calavi et Atlantique »
Yacoubou B. BIO BATA	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Directeur des Etudes et du Développement de la SBEE
Rodrigue YEHOUNME	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Membre de l'unité de gestion du Projet facilité à l'énergie
Moussa MACHOUDI	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Coordinateur du projet AFD/BEI/UE « Restructuration et extension des réseaux de la SBEE à Calavi et Atlantique »
Yacoubou B. BIO BATA	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Directeur des Etudes et du Développement de la SBEE
Rodrigue YEHOUNME	Société Béninoise d'Energie Electrique - SBEE (Benin National Electricity Company)	Membre de l'unité de gestion du Projet facilité à l'énergie
Koffi Franklin GBEDEY	World Bank	Energy Specialist

Annex 3: Survey of final beneficiaries

Benin-Togo Power Rehabilitation Project (LCO component)

What is your involvement/role in this project?	
A. Indirect beneficiary institution (Directeur de la Planification et Investissements de la CEET – Togo Electrical Energy Company) B. End user (deputy director of a hotel in Lomé) C. End user (director of a company in Lomé) D. End user (resident in Lomé)	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	A. No direct link seen, probably no impact on population's lives B. (question couldn't be asked) C. With this project I've noticed reduction of cuts off and people are more efficient in their activities so it reduces poverty D. I do not see any direct link between this project and reduction of poverty
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	A. (not applicable – not involved in project) B. (not applicable – not involved in project) C. (not applicable – not involved in project) D. (not applicable – not involved in project)
Who are the people benefiting the project?	A. The direct beneficiary institution itself (increase of its performance), direct clients of them, and my institution and my clients as indirect beneficiary company. Enterprises through productivity increase (lesser use of electric generators). B. (not applicable – not involved in project) C. (not applicable – not involved in project) D. (not applicable – not involved in project)
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	A. (not applicable– not involved in project) B. (not applicable– not involved in project) C. (not applicable– not involved in project) D. (not applicable– not involved in project)
What are the main benefits of this project? Are there any environmental/social benefits/wider development results?	A. Increased capacity of direct and indirect benefiaicy institutions. Enterprises with increased producitiviy. No environmental or social impact as project rehabilited existing infrastructure. B. Improvement in stability of electricity supply since last year. Less cut-offs. C. Reduction of cuts off D. I've noticed less cuts off during last year
Have any (temporary and permanent) jobs been created?	A. Yes, through subcontracting of certain works. Long-term jobs not directly, but maybe through financial gains of end beneficiary enterprises. B. (not applicable – not involved in project) C. (not applicable – not involved in project) D. (not applicable – not involved in project)
Are there any other contributing factors to the	A. No. Not clear what the EU contribution brought to this. B. Not that I know.

changes you observe? What's the relative importance of blending in observed changes?4 I will phase with him	C. Blending has allowed to have more resources to do the rehabilitation of those infrastructures that was about to die D. Do not see any changes that was brought specifically by the blending
Were you aware of the EU contribution to the project?	A. No. B. No. C. No D. No
Is there anything that could be improved?	
A. On top of the project (rehabilitation of substations) it would have been useful to rehabilitate the lines and two additional substations (Lomé 1 and 2). B. Cost could be reduced, although the major issue is stable electricity supply rather than cost. Other issue is the duplication of intermediaries: why CEB and CEET? C. Noticed that the rehabilitation was not for all the equipment and that should have been done for it D. Including also new low voltage network on those projects	
Do you have any other comments?	
A. No. B. No. C. No D. No	

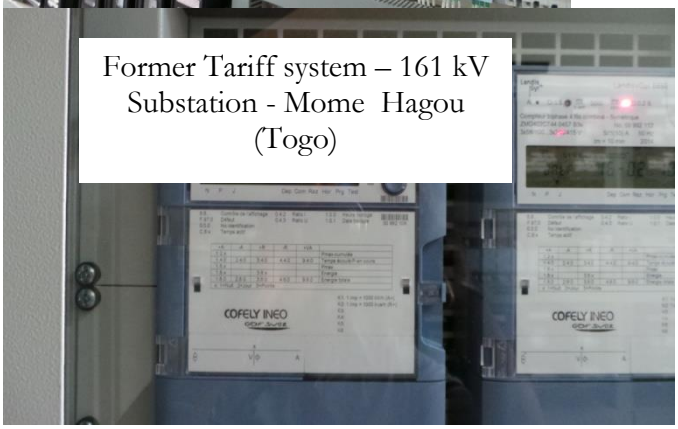
ERERA project

What is your involvement/role in this project?	
National regulatory authority of Togo (ARSE), as indirect beneficiary institution	
From you viewpoint and knowledge, outline the history and development of the project:	
Was the design of this project conductive to poverty reduction?	Yes, as the support to ERERA will enable to regulate the market, which should ultimately bring lower tariffs and that the population will have better access to energy. People ask for energy as one of their priorities. Energy is the motor of any development.
Has this project been implemented as planned (which activities were conducted? Which outputs were achieved? Explain deviations	From what we can see, yes, we receive capacity building support. But litigation resolution activity not fully operational (e.g. regulatory tests).
Who are the people benefiting the project?	- ERERA - National regulators and authorities - Consumer associations (in those countries where they exist) - End users
Are you using the outputs generated by this project? (e.g. knowledge transmitted useful?)	- Yes: trainings
What are the main benefits of this project? Are there any environmental/social	- Better regional and national market regulation - Better regional and national regulatory authorities, with harmonized structure

benefits/wider development results?	- Better service and tariffs for end users ➔ All of these objectives achieved only partially
Have any (temporary and permanent) jobs been created?	Probably not directly, except for ERERA staff or for trainings.
Are there any other contributing factors to the changes you observe? What's the relative importance of blending in observed changes?	N/A, except that creation and operationalization of ERERA are part of a general ECOWAS effort to structure the regional market (WAPP, ERERA, etc.)
Were you aware of the EU contribution to the project?	Yes. When we go to seminars/trainings, they specify the funding partners in the opening and closing ceremonies.
Is there anything that could be improved?	
- There is a clear need of donor political dialogue to put pressure on the political actors of West-Africa to make sure that a regional market is made operational. - Future support to ERERA should be results-based and should include clear deadlines.	
Do you have any other comments?	
No	

Annex 4: Pictures

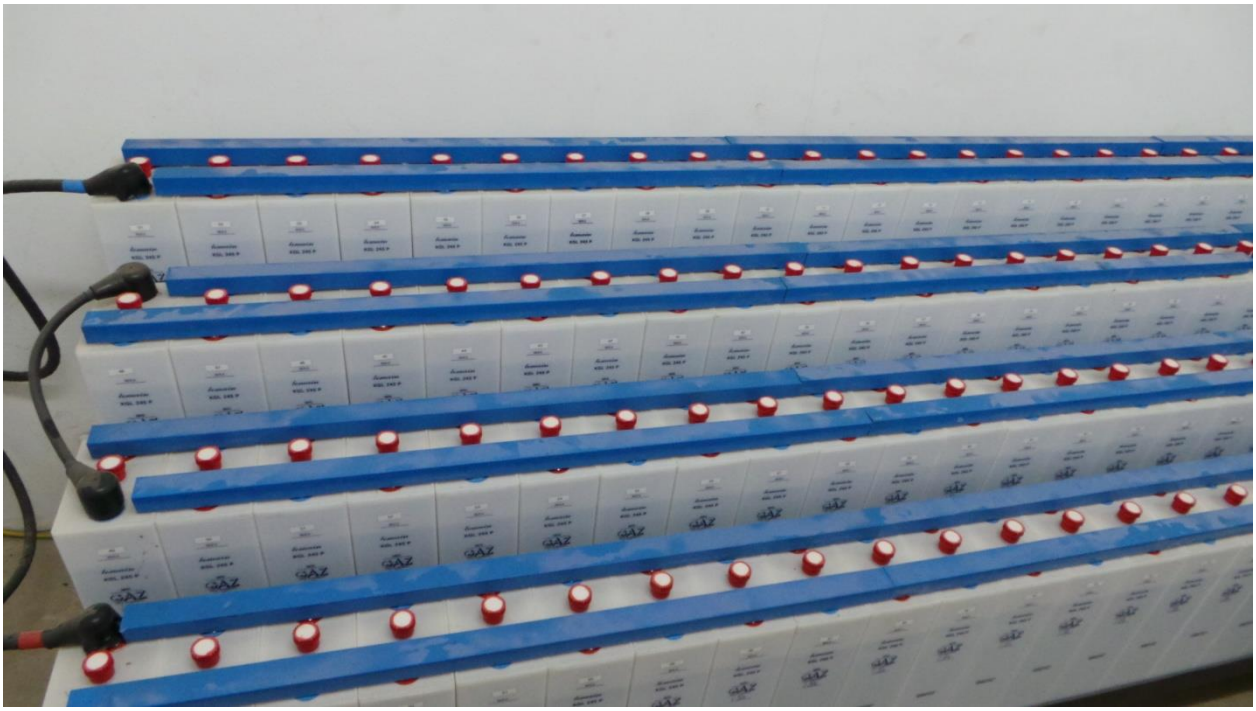
Former Tariff system – 161 kV Substation - Mome Hagou (Togo)



New Tariff system with LCO Project –161 kV Substation - Mome Hagou (Togo)

New 161 kV Circuit Breaker in Aflao (Togo) Substation installed by Benin - Togo Power Rehabilitation Project (LCO component)

New Surge Arrestors in Vedoko (Benin) Substation installed by Benin and Togo Power Rehabilitation Project (LCO



New 125 V Battery installed in Aflao (Togo)
161 kV Substation by Benin - Togo Power
Rehabilitation Project (LCO component)

Aflao (Togo) 161 kV Substation
Rehabilitated by Benin - Togo Power
Rehabilitation Project (LCO component)

Annex 5: Bibliography

A. Project documents

Project title	Lead FI	IFI financing proposal	APD (Avant-projetdétaillé)	Agreement	Project fiche / Application form	Feasibility study	Progress report	Monitoring report	Final report/ Completion report	Evaluation report	IFI Internal review report	Environmental and Social Impact Assessment
Update of the WAPP Masterplan	EIB			√	√				√			
Benin-Togo Power Rehabilitation Project	EIB	√										√
ECOWAS Electricity Regulation (ERERA)	AFD			√	√	√	√		√		√	
Access to electricity in the Atlantique province in Benin	AFD		√									√

B. Other documents consulted

Author	Title	Year
European Commission	Benin : Document de stratégie pays et programme indicatif national 2008-2013	2007
European Commission	European Community - West Africa - Regional Strategy Paper and Regional Indicative Programme 2008 - 2013	2008
European Commission	Benin: Programme Indicatif National 2014-2020	2014
European Commission	Pan-African Programme 2014-2020: Multiannual indicative programme 2014-2017	2014
European Commission	Togo : Programme National Indicatifve 2014-2020	2014
European Commission	'EU support to West Africa Energy Sector' Factsheet	2015
European Commission	The European Union's Technical Assistance Facility (TAF)for the Sustainable Energy for All (SE4ALL)	2015

Annex B4: Surveys

The survey aimed at quantifying perceptions from different constituencies of blending, for the period 2007-2014. The target participant groups were[1]:

- The EU Delegations (staff in charge of blending projects) – survey #1
- The beneficiaries, including financial intermediaries and SMEs managers – survey #2.

Survey#1 to EU Delegations

The survey #1 to EU Delegations has been launched during the Desk phase, with the support of the Evaluation Unit.

The questionnaire was closely linked to the evaluation questions. It started with a question on the level of familiarity of the respondent with blending. It was then followed by 17 questions, structured in 3 parts:

- the **strategic value of blending**: 1 question examined the extent to which blending used the right level of grants;
- the **added value that blending provides**: through 8 questions, the survey examined the extent to which blending i) has contributed to policy reforms, ii) has served to increase the quality of infrastructure-related projects, iii) has led to improved access to finance, and iv) has contributed to improving coordination among aid actors, lowered transaction costs and enhanced the visibility of EU aid;
- the **results of blending projects**: 8 questions examined i) the relevance of the design of blending projects, ii) the achievements obtained up to date, and iii) for (near-) completed projects whether the projects are likely to deliver development results.

The team has designed the questionnaire so that it did not require more than 30 minutes of respondents' time. It included mostly closed questions, although also leaving space for open responses for respondents willing to clarify their response. The questionnaire has been distributed by e-mail, through the on-line survey tool SurveyMonkey.

The survey has been sent to 38 over the 47 EU Delegations of countries in which blending projects have been implemented during the evaluation period. This figure corresponds to the number of EU Delegations that have provided the contact person to whom the survey should be send. The reply rate to the survey was 95% (36 EUDs over 38). The analysis of the results is provided below.

[1] IFIs (staff in charge of blending projects) were initially envisaged for the survey. However, as their views have been collected during desk interviews conducted in July 2015, the survey was not relevant anymore.

Survey #2 to beneficiaries

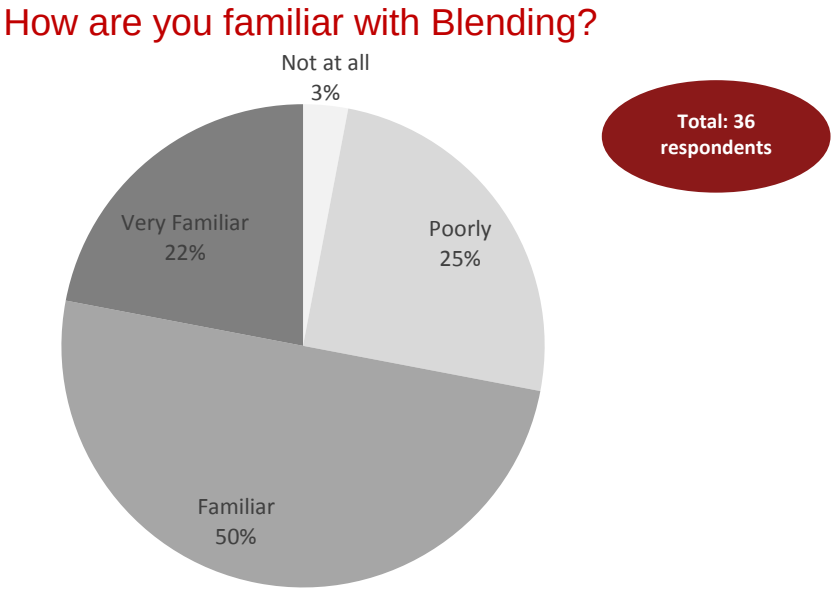
The survey #2 to beneficiaries has been launched during the field phase. As for survey #1, the questionnaire was structured in 3 parts, around 17 questions closely linked to the evaluation questions. The team has sought active support from the EU Delegations to provide contact details of target audiences (project beneficiaries). These contact details were provided by the respondents of the survey#1. The survey has been sent to the 9 relevant beneficiaries for whom the contact details had been provided. The reply rate to the survey has been limited (1 over 9).The questionnaire has been distributed by e-mail, through the on-line survey tool SurveyMonkey.

Survey#1 to EU Delegations – Final results

1. Overview of the respondents:

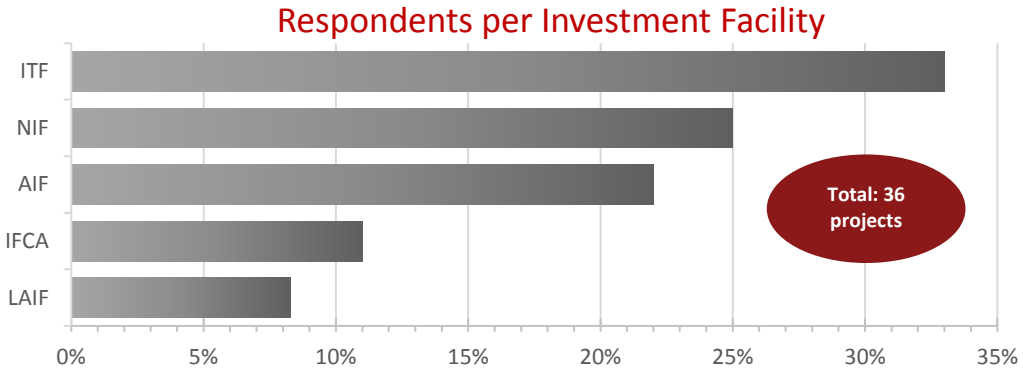
Please note that there were 36 respondents, with 4 of them not responding to the entire survey (therefore the rest of the analysis is mostly based on the other 32 respondents).

Most respondents are familiar or very familiar with blending (72%). 9 respondents considered themselves as poorly familiar and 1 as not at all familiar.



Number of respondents	Not at all familiar	Poorly familiar	Familiar	Very Familiar
	1	9	18	8

ITF and NIF jointly represent 58% of the respondents. AIF is the 3rd facility of the survey, representing 22% of the respondents. IFCA and LAIF reach 19% together. CIF is not represented in the survey.

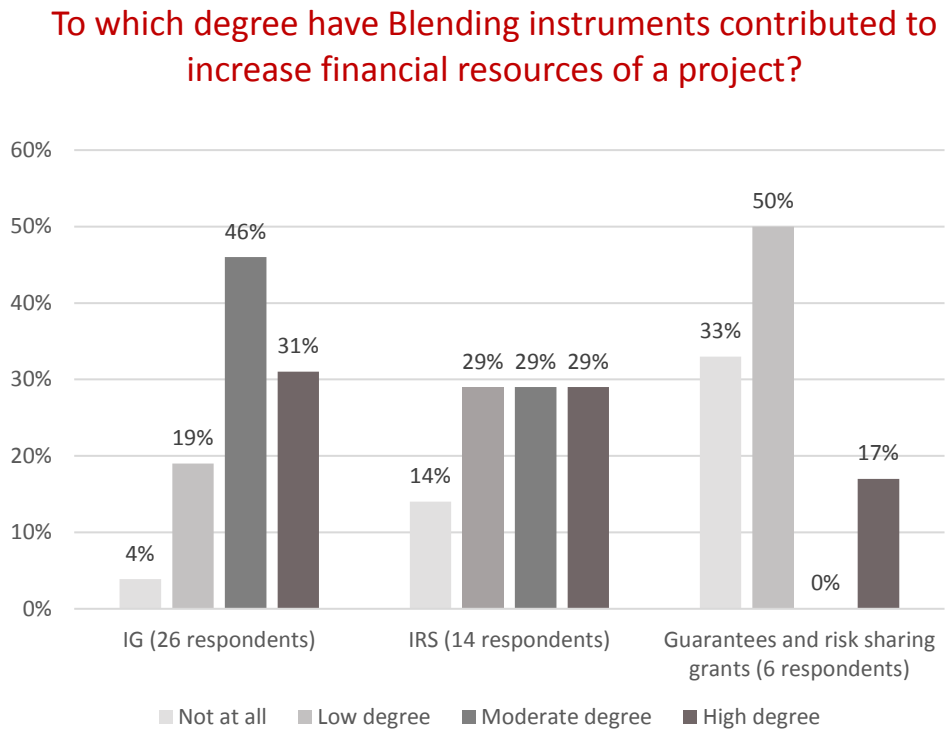


Number of projects	ITF	NIF	AIF	IFCA	LAIF
	12	9	8	4	3

2. Overview of the results:

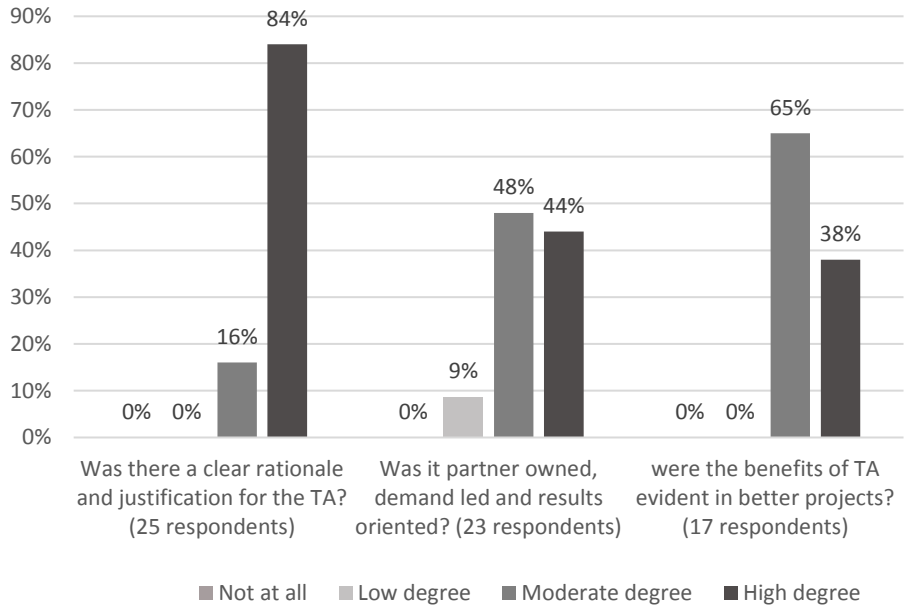
On instruments:

1. Every type of instrument has succeeded in mobilizing private funds. However, some are more successful than others in doing so. For example, 77% of respondents consider that IG contributed to increase the financial resources available for a project to a moderate or high degree, whereas this rate is only 17% for the Guarantees (however only 6 respondents in this case).

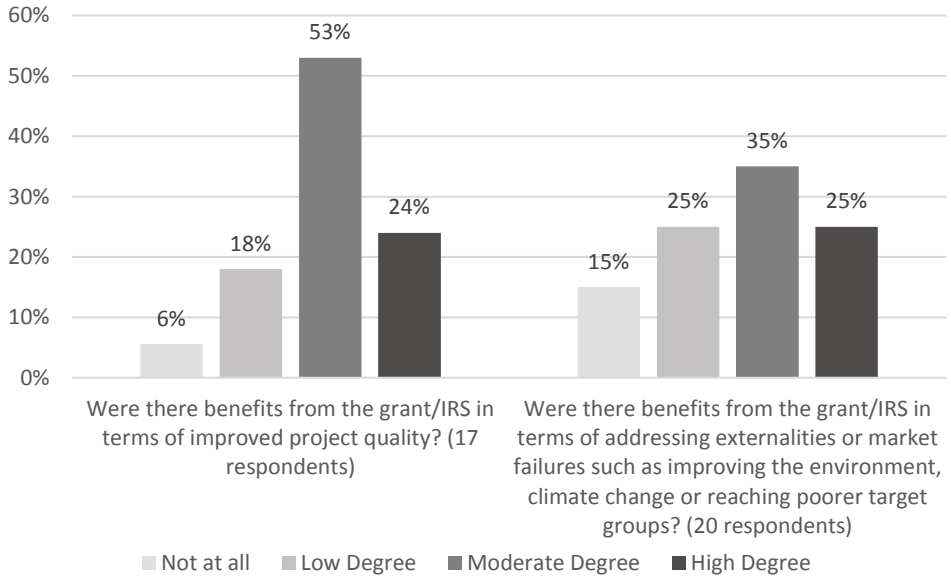


2. According to 84% of the respondents, TA was provided when there were a high degree of rationale and justification for such support. The benefits from the grant/IRS exist but are mainly considered to be moderate in terms of improving project quality, and of addressing externalities, market failures or reaching poorer target groups. Limited information in terms of loan guarantees and risk capital (6 respondents in total, including 4 for whom the benefits of loan guarantees or RC in terms of addressing externalities or market failures are considered as being moderate or high).

Where TA was provided...



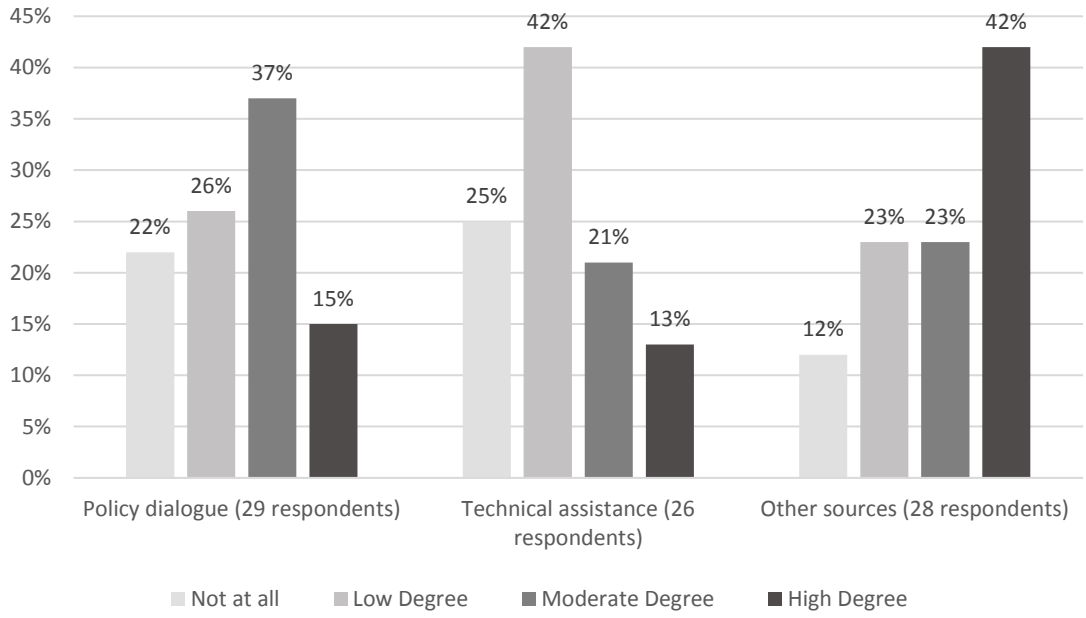
Where IG or IRS was provided...



On policy reforms:

3. The policy dialogue and technical assistance provided through blending projects have had mostly a limited leverage on sector policy reforms, as respectively 48% and 67% of the respondents consider that the instrument had no influence at all or to a low degree to the reform process. Other sources of influence had been better in promoting policy reforms than policy dialogue and TA, with 42% of the respondents considering that their leverage on the reform process has been high.

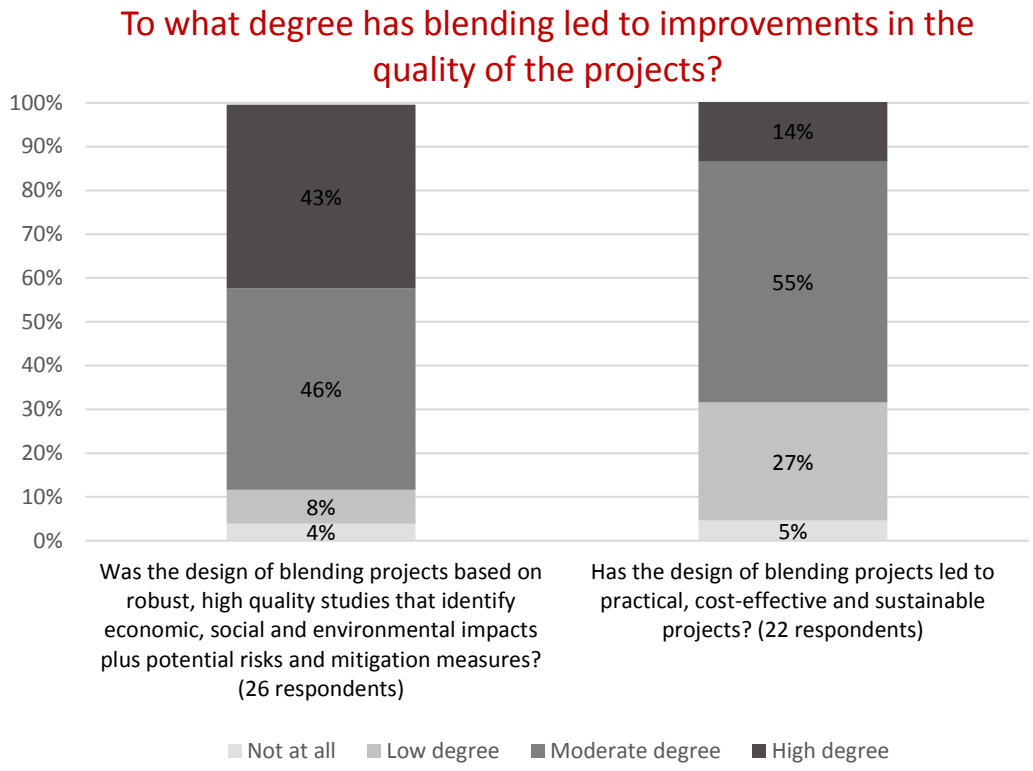
The leverage on the reform process was exerted with blending projects through...

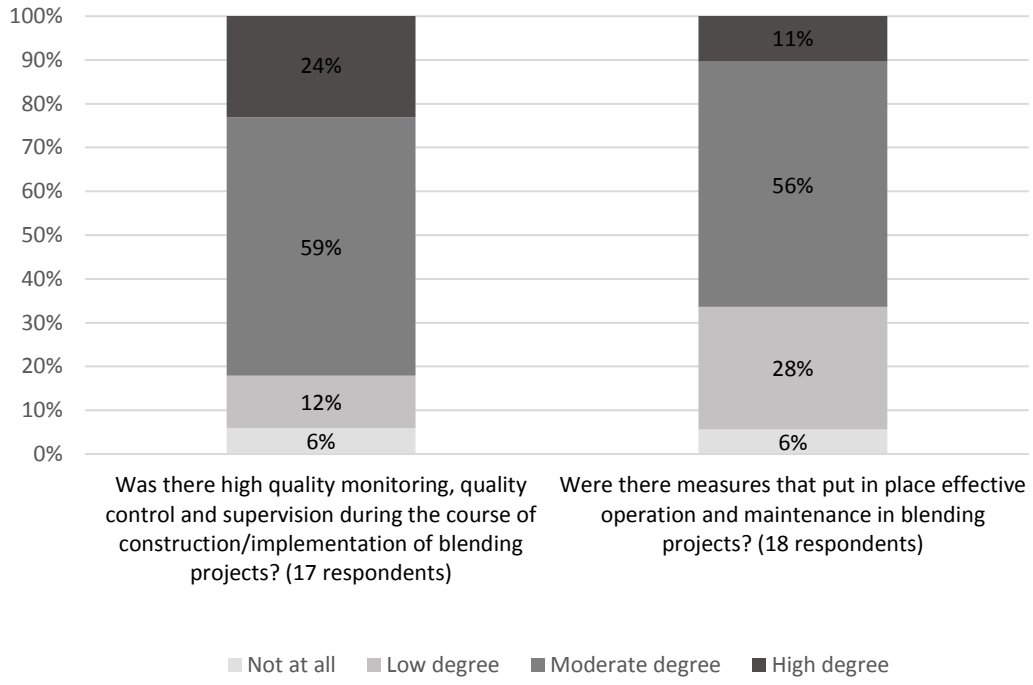


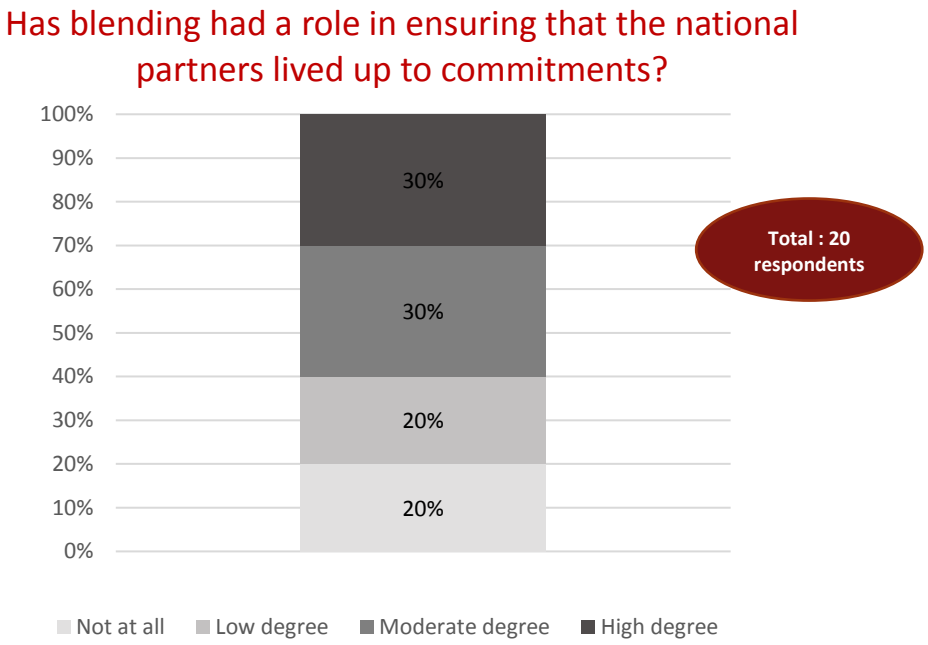
4. Limited information in terms of policy dialogue and budget support (10 respondents). According to 6 respondents, the policy dialogue held with blending has been lowly linked and coherent with the policy dialogue held within the framework of the EU budget support, and only 2 respondents think the two policy dialogues were highly linked and coherent.

On design and quality:

5. For the majority of respondents (89%), blending projects' design was considered robust to a moderate or a high degree. However, 86% of respondents consider that the design has not led at all, or to a moderate, to sustainable and cost-effective projects. Regarding their monitoring, they were all correctly or very well supervised (59% and 24% respectively). Measures putting in place effective operation and maintenance were estimated present mostly from a null to a moderate degree (according 89% of respondent). Last but not least, blending was not extremely successful in ensuring national partners to live up to their commitments, since for 70% of the respondents, the role of blending in that matter was low, moderate or null.

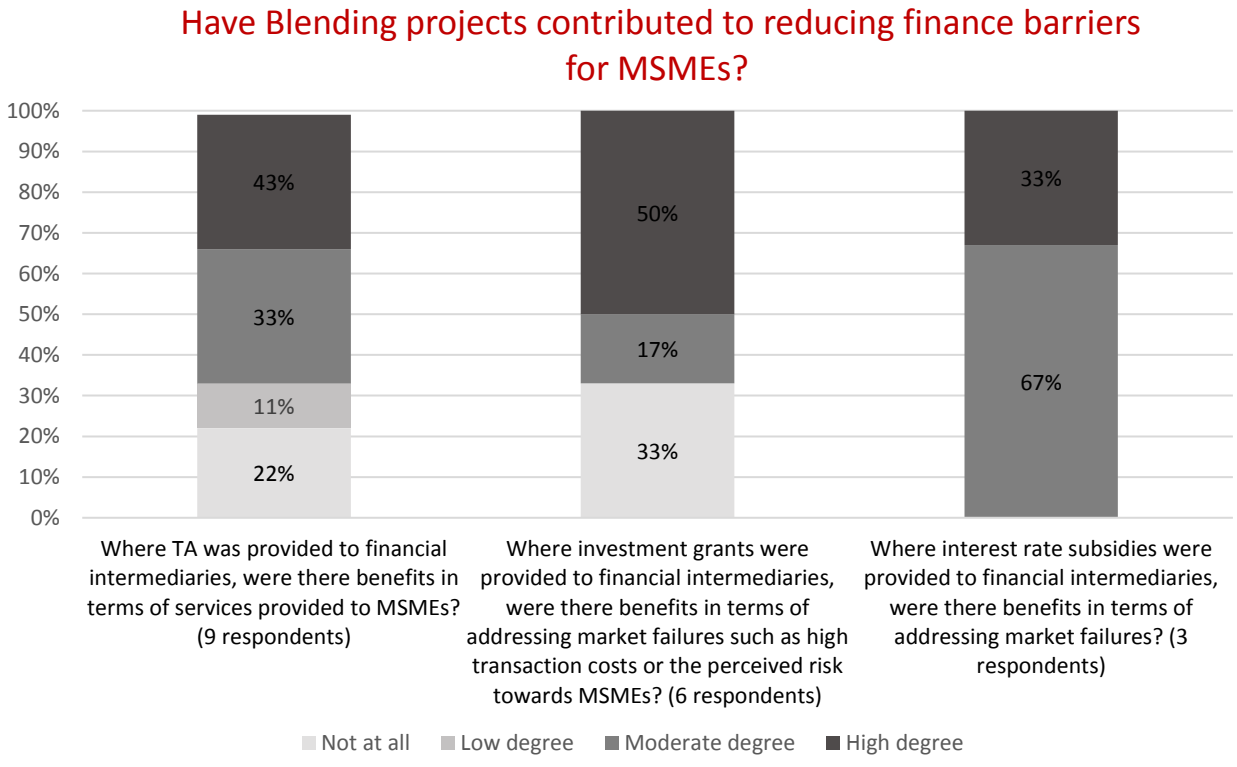

To what degree has blending led to improvements in the quality of the projects?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
43%
46%
8%
4%
14%
55%
27%
5%
Was the design of blending projects based on robust, high quality studies that identify economic, social and environmental impacts plus potential risks and mitigation measures? (26 respondents)
Has the design of blending projects led to practical, cost-effective and sustainable projects? (22 respondents)
Not at all
Low degree
Moderate degree
High degree


100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
24%
59%
12%
6%
11%
56%
28%
6%
Was there high quality monitoring, quality control and supervision during the course of construction/implementation of blending projects? (17 respondents)
Were there measures that put in place effective operation and maintenance in blending projects? (18 respondents)
Not at all
Low degree
Moderate degree
High degree



On finance barriers for SMEs:

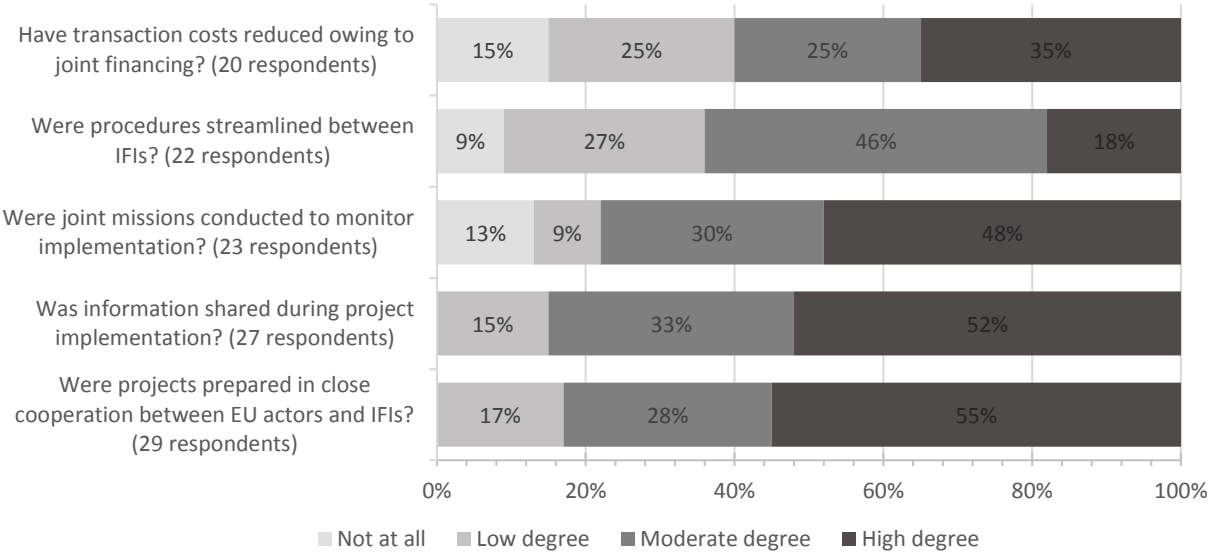
6. Limited information in terms of financial inclusion of MSMEs (from 2 to 9 respondents per sub-question). All respondents consider that blending projects, whether it is through IG, RC, guarantees or TA, have succeeded in reducing finance barriers for MSMEs. Even though, for all instruments except IG, the influence is more moderate than high, and especially for risk capital and loan guarantees (2 out of the 2 respondents in both cases).



On aid effectiveness, transaction costs and visibility:

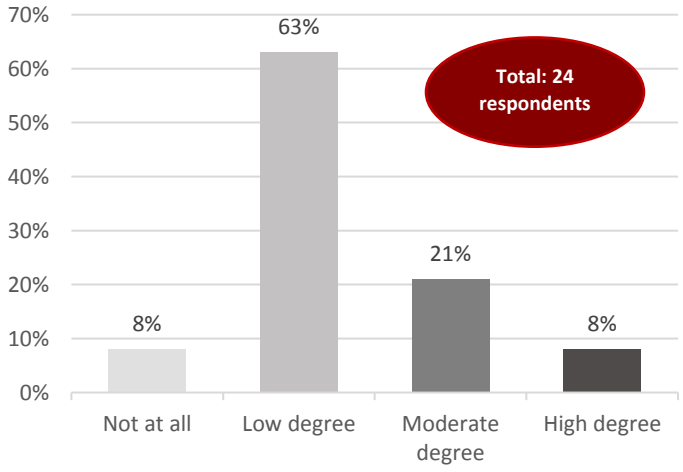
7. There was a close cooperation and high sharing of information during projects preparation and implementation. In terms of transaction costs, it appears that joint financing has not reduced them significantly, as 65% of the respondents consider that joint financing influenced on reducing those costs from a null to a moderate degree.

To what degree blending led to improved cooperation and coordination between actors and to lowered aid transaction costs?



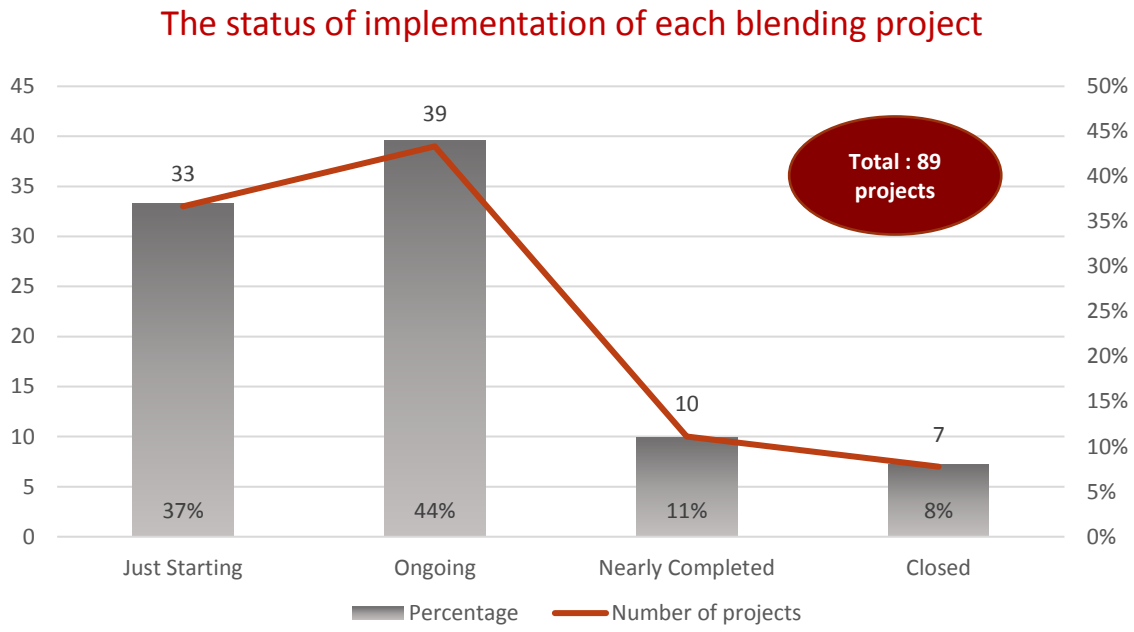
8. An important majority of the respondents (71%) consider that blending had a null or a low effect on increasing EU visibility.

To what degree has blending increased EU visibility?

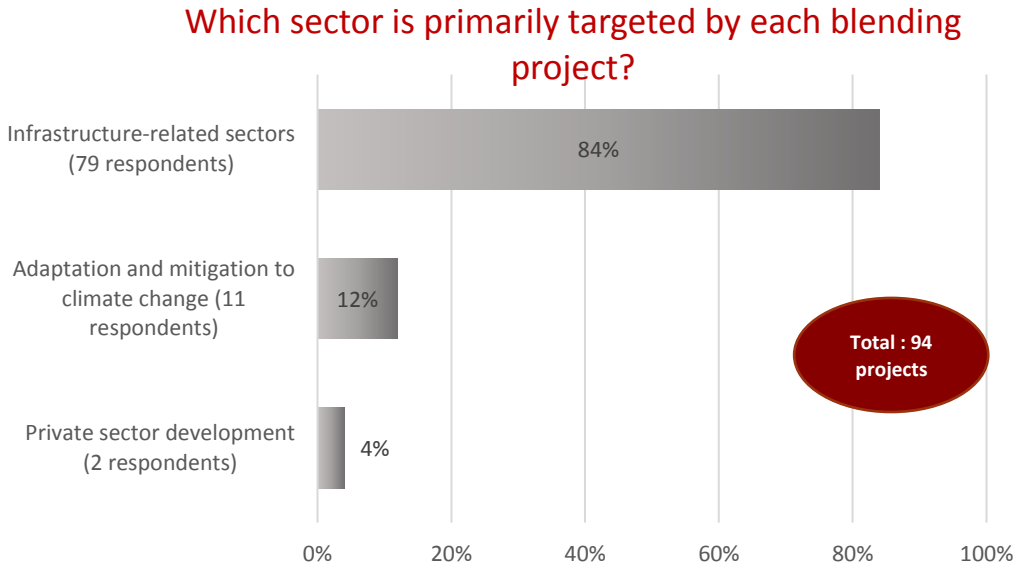


On results:

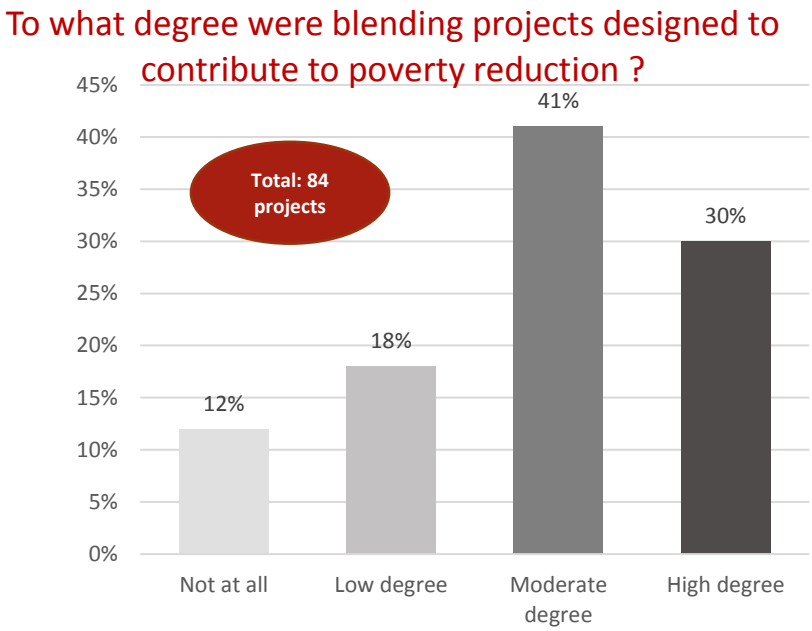
9. The majority of the projects mentioned by the respondents are just starting or ongoing (81%), it should then be hard to infer a lot of information from them in terms of results.



10. Out of the most familiar projects to the respondents, around 84% are infrastructure-related, 12% are related to adaptation and mitigation to climate change, and 4% to private sector development.

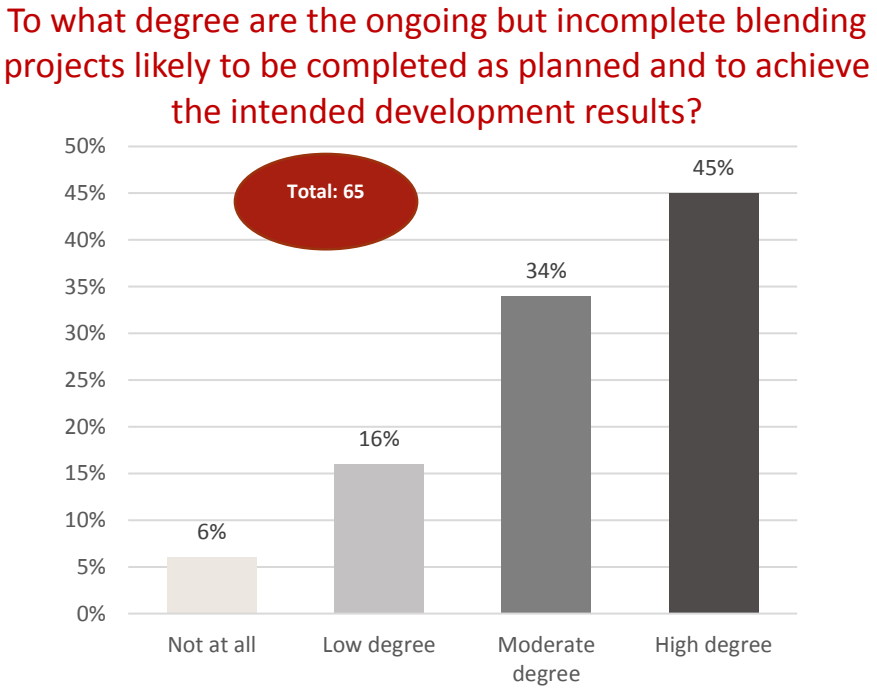


11. Poverty reduction is not the top priority of blending projects, as only 30% of them were designed to contribute to poverty reduction to a high degree.



Number of projects	Not at all	Low degree	Moderate degree	High degree
	10	15	34	25

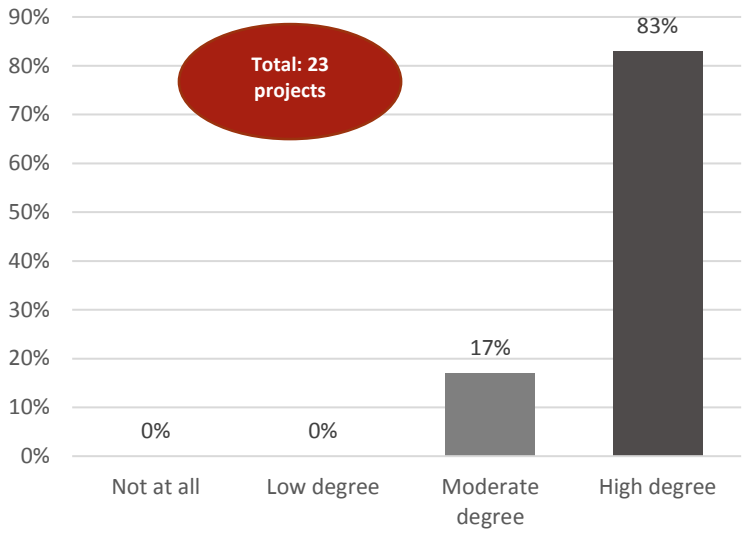
12. Most of the ongoing but incomplete blending projects are likely to be completed as planned and to achieve development results (45% to a high degree and 34% to a moderate degree).



Number of projects	Not at all	Low degree	Moderate degree	High degree
	4	10	22	29

13. The majority of the (near-)completed blending projects (83%) have reached the intended development results to a high degree.

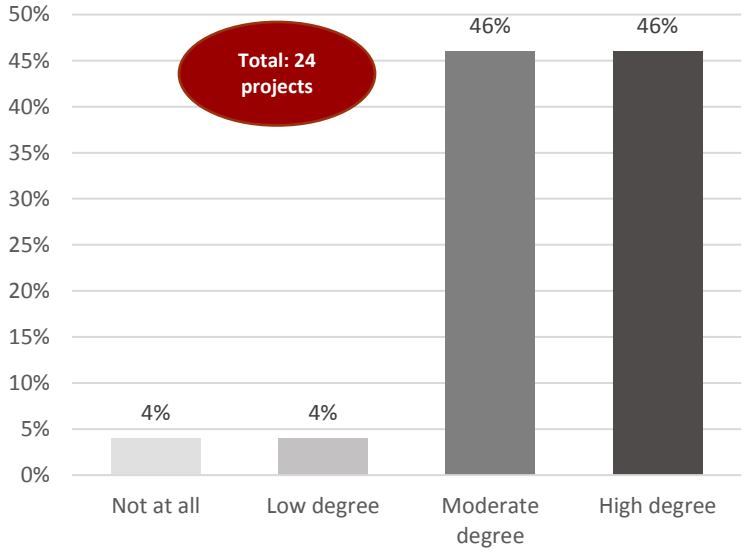
For (near-)completed blending projects, to what degree have they reached the intended development results?



Number of projects	Not at all	Low degree	Moderate degree	High degree
	0	0	4	19

14. It seems that (near-)completed blending projects have been successful in achieving sustainable results (92% to a moderate or a high degree).

For (near-)completed blending projects, to what degree are the results achieved sustainable?



Number of projects	Not at all	Low degree	Moderate degree	High degree
	1	1	11	11

3. Sample of Examples/comments provided:

On leverage:

- In the case of the FIPAG project, the leverage of the grant money was low "3", and the impact of the project is quite high. In the case of the Beira Corridor project, the interest rate subsidies grant has a very high leverage "37.6" however, impact results was not as high as expected.
- The Metro Project, The EU contributes an amount of EUR 40 M, which leveraged EUR 900 M from the IFIs.
- There is only one project implemented in Indonesia which uses grant for both Technical Assistance and Investment grant (performance-based incentive). Logically the availability of performance-based incentives should entice the target group (SMEs) to take up the loan and perform the energy-efficiency measures, but since the project is hardly running and in the verge of closing because it could not find local FIs to channel the loan then this logic cannot be tested. We don't know for sure if investment grant can significantly contribute to increase financial resources, hence my comment to this question.
- One investment grant has been signed for a project in Lebanon, but its amount is quite limited compared to the overall project budget. Moreover this project has not yet started for political reasons.
- The grant amounts 18 m€ to be compared to an AFD loan of 39 m€. In addition, these contributions triggered EIB involvment in the project (50 m€ loan), in which other partners also take part (in particular World Bank with a 59 m€ loan).
- Blending funds in Colombia have been used to finance pilot actions and TA aiming at adding technical and strategical value to projects to be financed by credit operations.
- The EU has in Uganda experience in both, investment grants and interest rate subsidies. There are currently two examples in the transport sector, Kampala Northern Bypass and "Northern Corridor" Road (Mbarara-Ntungamo-Katuna) which are implemented using also EIB loans. Both projects are of medium size for blending operations in the transport sector, but significantly large in the Ugandan context. GoU realize the advantage of blending for their financing strategy and are highly appreciative of the European support. Note: this questionnaire contains a ridiculously mechanistic verification loop, forcing is to insert dummies for projects, as we had to fill in the lines for exactly five projects (event though we have only two), otherwise the survey could not have been completed and our other entries would have been lost. Better survey design next time! :-)
- One of the problems for those of us responsible for operations in the Delegations is that we get involved only at a very late stage in the project preparation process. I do not recall a single time where any of my colleagues or I were consulted on "design" issues such as whether to apply interest rate subsidies or guarantees/risk sharing for a particular project/framework loan. We are not even consulted on the interest rate levels, grace periods or maturity of the loans. I think we, the European Commission, are taking a considerable reputational risk with the tax-payers' money. Does anyone know how big a share of our grants effectively end of as bonuses to the EBRD's management and dividends to shareholders?
- Blending has been very effective in a sense that numerous projects have been supported with the instrument and it has certainly helped to have more projects ready to be

financed. Nevertheless, it remains difficult to evaluate whether the projects would still have been financed without the blending support. For sure, blending made projects cheaper for beneficiaries and certainly of a higher quality but I cannot be 100% sure that it has triggered some new projects which otherwise would not have been financed.

- Unfortunately, the leverage principle has been misused by many EC colleagues to apply certain minimum ratio as a criteria to approve projects. Actually, in the financial regulation the there are no specific ratio set, it just says that the FI contribution has to be greater than the EU grants. FIs do not use EU grants to increase the financial resources but rather to make their deals more appealing to the government and other public bodies and commercial banks (" the clients"), the leverage is for them the last thing in their mind. There is a fierce competition between FI (EU and non EU) to strike deals with clients. The EU delegation has been trying to put some order and introduce strategic thinking in the choice of projects but many projects selected, we do see now are, could have been better prepared, economies of scales and synergies found with other projects. This lack of coordination has led to duplications at regional and national level, FIs doing similar projects on different contracts, at the end, diluting the so-called leverage between many similar projects. For instance, in Armenia (and certainly in other countries), the credit market is saturated, FIs are partly (assumption to be verified) guilty as they have been offering tons of loans to commercial banks. More worrisome, an European FI (not on NIF grant) has been offering an Apex loan to Central Bank with a really low interest rate, distorting the already saturated market. Finally, it is important to remind that following the Court of Auditors special report last year, the EC has been requested to look more at the additionality of grant from more than just the financial aspects but as well as regards the structural reforms (governance, transparency, access to market,..) in different sectors that are essential to ensure a greater effectiveness and impact of EU funding.

On instruments:

- For projects like FIPAG and EDAP the externalities above mentioned are per se the project objectives, so those factors are not considered externalities. While for the Beira Corridor and the Airport projects those externalities where considered as cross cutting issues during the design of the project.
- The project in Indonesia uses grants for TA and investment grant. It is in the process of suspension/closing after 2 years of implementation and no take up from local FI, so I can only comment on the TA, but not on the investment grant since the project has not reached the phase of disbursement of investment grant yet. In the design, the need for TA is clear and justified. The TA in the project has only been used for a small feasibility industry scoping study, no more than that. The Delegation has never been in any occasion to see how the IFI works with the national partner to be able to comment if the TA was partner owned, demand led and results oriented. The fact that the project will (probably) be suspended during its early stage of implementation, makes it difficult to assess if TA has/has not brought benefits to this project. The same comment goes to the benefit of investment grant: not possible to comment due to early stage of implementation (which is about to be suspended)
- The 2 TA being committed and signed shall undoubtedly support the 2 blending operations (when these will start, after political blockages have been lifted). The need for

accompanying measures in such important infrastructure projects is tremendously important in Lebanon, not only in terms of technical support but also in terms of better securing a sound project implementation and control of EU funds spending.

- TA prepared feasibility studies and tender dossiers, - The quality of the project did not depend on our contribution, - Standards for environment, climate change, reaching the poors would have been imposed by French Development Agency and EIB, even if we had not provided EDF grant.
- We are not sure the questionnaire is relevant for the blending projects we have in Uganda. All are traditional road construction projects with Government (no private sector finance involved) where the approach would have been the same under a grant, a loan and a blending operation. The main difference is the additional financial leverage realized for GoU by blending.
- The rationale for the use of first loss credit enhancement and incentive payments on the KyrSEFF energy efficiency programme is still not clear to me. My superficial impression after having met beneficiaries and seen some of the projects on-site the main beneficiaries seem to have been financial intermediaries (private banks) and relatively well-off SMEs.
- TA can be useful to support PIU and implementation of complicated projects when beneficiaries do not yet have 100% of the competencies necessary. It can also be a safeguard for us for good use of the funds. Nevertheless, the TA component should be limited in % of the general funding as we should have still most of the money still going to the concrete infrastructure investment.
- Regarding loan guarantee and risk capital, all projects were regional, some of them were not tailor-made for different type of markets in the neighbourhood countries which hampered them to function properly.

On policy reforms:

- Blending is done for particular projects, mainly infrastructure. Financial closure for these kind of projects only happen when particular conditions regarding policies are met. Most of the time, these conditions are only reached following policy dialogue implemented through other mechanisms.
- To the Delegation's knowledge, no policy dialogue process has been initiated by the project. Until now, since the TA was only used up for small scoping study, it is unlikely that the TA influenced any reform process. As this project has just begun and about to be suspended, it is not possible to compare the influence of this project with other project with different modalities. They are not apple to apple.
- It is hard to answer to these questions for the moment as none of the 2 blending operations have started as of today. But these blending have unfortunately not been strong enough to support the alleviation of political blockages within our regular policy dialogue.
- - The importance of this project (provision of water to 1 million inhabitants of Bamako) is such that having a sound policy dialogue is a necessity to the authorities. It is difficult to say to what extent the financing tool is helpful, though, - TA was not recruited to take part in reform process, - The dialogue is very much focused on provision of water for Bamako and therefore on the project so there are no real other source of influence on this topic.

- The EU had over several years a major general budget support operation in Uganda which covered also transport sector performance indicators. This was linked to a regular policy dialogue taken quite seriously by the Government. In the transport sector, GoU continues to use the established indicators for annual performance assessment, although the budget support programme has come to an end. This has been complementary to the existing project activities incl. blending. We don't think that blending alone or the amounts mobilized in projects make a difference for the policy dialogue. Our experience in Uganda is more, that a portfolio approach works best, combining budget support with traditional projects, engagement in the sector working groups, and regular exchange with the government.
- We, the delegation, have a lot more leverage through the policy dialogue linked to our sector budget support programmes or the work's contract (road construction) we manage directly. These programmes/projects require us to meet with high-level officials regularly, whereas our blending operations do not.
- All depends on the role played by the EU Delegation and our IFI partner in the sector. Unfortunately, I do not find our IFIs partners so strong at pushing sector policy reform as I don't think they spend enough time on this.
- This goes back to my initial comment. The EU delegation started in 2014 to force FIs to leverage more the projects as FI are mainly interested in financial deals. New generation of projects are now starting to feature some more leverage on structural reforms e.g. in the energy sector and in the near future in the transport and water management sectors. There are different ways and moments to leverage a project. Upstream the EUD establish a dialogue with the FIs and the government to set some conditions to be fulfilled and during the preparation of the project documents the EUD ensures that features for policy dialogue are present in the project (TA). Unfortunately, this is new and the government and FIs do not take the EU seriously and just play a tick the box game. This will require more dialogue, more strategy and more technical capacity from the EUD to be able to dialogue effectively. This is why the EUD is about the launch a small technical assistance to assist this dialogue in the different sectors.

On policy dialogue and budget support:

- No budget support in the energy sector targeted by the blending project.
- Not sure this question is clear or relevant in our context.
- Unfortunately, not enough.
- EU grants are EU grants, no matter what is the instrument used (NIF or budget support). If the EU wants to be coherent, it should be treat those instrument in a similar fashion and avoid wasting EU tax payers money, as it does too often. Both are channel the same way through the national treasury account, so NIF is also budget support. There is a necessity to have a sector approach in both cases, unfortunately, this is not the case for NIF projects that are too project oriented. The EUD is pushing for more sector approach in all projects it manages.

On quality:

- The choice of N/A in the last question is because this element is difficult to appreciate/evaluate.
- I don't know how the process was / is done at HQ, but the Delegation was only informed when the proposal already preselected to be discussed in the AIF board. We were requested to give comments on the proposal, then few months later we were informed that the project was to be managed by us. IFI visited the Delegation few times to share the implementation, but the Delegation has never been in any of the project activities. No mission has been conducted during the implementation period. There is only one IFI in one project in Indonesia, so no comparison on the procedures of IFIs can be made. It is possible that transaction costs reduced as the costs incurred so far by the project is only the TA done by external experts (not the salaries of the various IFI staff involved in the Action).
- Blending projects have not yet started yet in Lebanon, however their preparatory phase showed a strong cooperation between involved IFIs and the EU.
- - Coordination with AFD and EIB has been a major concern to all three partners and information is properly shared, - EU funding has been delegated to AFD so obviously transaction costs were reduced but coordination still remains time consuming of course, - One issue I would like to raise here is that the pace of the project goes to the speed of the slower partner. In our case, EU was ready to start in 2013 already, but due to the situation in the country, AFD was not able to start at that time and as for EIB, they joined the project when things were already well advanced. As a consequence, the project has lost at least a year compared to when we could have started it.
- Most reporting synchronized, but EIB still needs some specific reporting for their loans.
- Except one joint EBRD/EIB/EUD mission to Talas, Osh, Jalal-Abad and Uzgen in May 2014 the upstream cooperation between the EUD and the EBRD has been limited to reviews of project fiches ahead of IFCA board meetings. The cooperation with EIB on the two operations that are now in the pipeline have been more intense and involved several meetings and telephone conversations. Moreover, the EUD has facilitated the negotiations of the loan agreements between the Government and EIB by providing video-conference facilities and interpretation.
- Now there is better cooperation with IFIs who inform us in advance when they prepare projects. Still, the information they share during project implementation remains too limited and the EU has too often to request information to the banks which do not always do it naturally.

On visibility:

- Visibility is low when doing interest rate subsidies, but high when doing investment grant.
- It depends on the project and the Lead LFI
- Again this cannot be answered because the project has barely begun and possibly suspended.
- Could be answered later on when the projects will start effectively.
- We are perceived as a "small" donor whilst actually our contribution is a grant - other partners only provide loans. Even if our partners try to ensure proper visibility, EU is

often forgotten because we do not pronounce speeches on donor side, because we have no lead role on technical issues, etc.

- GoU sees the additional financial benefit, but for most stakeholders incl. wider public there is no difference regarding our visibility. Interest subsidies not visible at all.
- Generally speaking, EU visibility on the EBRD managed projects is unacceptably low. The worst example is the Bishkek solid waste project where the EU's taxpayers through IFCA fund EUR 8 million out of EUR 22 million. This is largely ignored when local media refer to the project.
- It is good in general for visibility but we have to be very careful to make sure EU-funding role is clearly mentioned and that we underline the difference between us giving grants and banks providing loans. Also, the problem is that with contribution agreements with IFIs, these are the banks signing the contribution agreements with beneficiary in our name. EU is invited to this signature but we have to be very careful on the way we promote this event to media to underline that it is an EU grant and not an IFIs given grant.
- During a monitoring exercise, visiting companies having benefited from the EBRD implemented SBS project, companies were referring to the project benefit as being thankful to EBRD. I then had to remind them that this is a fully EU funded project. We other such examples, going beyond NIF projects, but the EUD is now very active in insisting on the visibility aspects.

On poverty reduction:

- The project more focuses on the promotion of energy-efficiency technology take up for energy-intensive SMEs, so it does not specifically aim to poverty reduction.
- - Water supply is a basic service so no doubt on contribution to poverty reduction.
- Our understanding, consistent with GoU rationale expressed in the National Development Plan, is that improved regional infrastructure will support regional integration and economic growth which has a poverty alleviating effect. This has been very clearly reflected in the design phase for both projects. Our rating above is, however, based on our assessment of the de-facto poverty reduction effect of these roads, which we see as moderate.
- KyrSEFF does not benefit the poorest part of the population but may have considerable environmental benefits. Bishkek solid waste has considerable potential for aided very poor people, including those who live near the existing landfill. The Tokmok water project unfortunately does not cover the rehabilitation of the effectively collapsed WWTP but only the drinking water network. Both the framework loan and the TA framework for EBRD's municipal infrastructure projects have great potential but in some cases the focus on specific investments are not sufficiently pro-poor or even environmentally sound (e.g. the fact that the planned EBRD managed Osh solid waste project will not cover the closure and rehabilitation of the existing (permanently burning) landfill but only the relatively uncomplicated establishment of a new landfill in Osh).

On the achievement of intended development results:

- The project is in the process of suspending/terminating the project. If this continues sometime in the near future, it can have better chance to be completed as planned and achieve its goals.
- Low degree as political blockages are high to allow them to start.
- - Even though with some delay at beginning of project as mentioned before.
- Project 1. Implementation partner Findeter'r (public-private second-tier institution) main business is to finance territorial development in Colombia. Therefore it has the expertise, territorial experience and efficiency needed to guarantee completion of implementation and achievement of intended development results. Project 2. The main partner is the Ministry of Environment with which coordination has taken longer than expected due to bureaucratic issues. Project may have challenges to be completed as planned.
- Here, the questionnaire is not very clear, mixing two questions (completed as planned/intended results). Both projects have encountered delays and cost overruns, thus deviating from initial plans but still within scope of anticipated activities. Both projects are expected (and there is first evidence) that the intended results will be achieved. Development results are beyond completion of project, realized over time.
- KyrSEFF is already an established programme and has been renewed in a KyrSEFF II programme with good results. Bishkek solid waste is a complex project which I understand was already tried and failed once by the EBRD. Tokmok will be relatively easy as the difficult part, the WWTP rehabilitation/reconstruction, was left out. If a similar approach is used by ERBD when it comes to the individual projects implemented under the framework loan and the TA framework the projects themselves are likely to be successful but they will have a limited impact on poverty reduction.
- purpose of the evaluation, more views to be provided during interview with EUD

On the sustainability of the results achieved:

- Same answer
- We still have to see about continued maintenance of the roads project in question. In economic terms: the road is part of an important regional axis, reducing significantly transport time and cost, and improving safety conditions. We therefore expect long-lasting economic benefit.
- See above.
- purpose of the evaluation, more views to be provided during interview with EUD