European Commission

Evaluation of Blending

Final Report

Volume I – Main Report

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° 2014/352910/1

This evaluation was commissioned by

the Evaluation Unit of the

Directorate-General for International Cooperation and Development

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List of acronyms and abbreviations

AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AFD	Agence Française de Développement
AIF	Asian Investment Facility
CDB	Caribbean Development Bank
CIF	Caribbean Investment Facility
CRIS	Common RELEX Information System
CSP	Concentrated Solar thermal Power
DEVCO	European Commission Directorate-General International Cooperation and Development
DSF	Debt-Sustainability Framework
EBRD	European Bank for Reconstruction and Development
ECOWAS	Economic Community Of West African States (ERERA)
EDFI	European Development Finance Institution
EEAS	European External Action Service
EE-RE	Energy Efficiency-Renewable Energy
EFSE	European Fund for South East Europe
EIB	European Investment Bank
ENR	European Neighbourhood Region
EQ	Evaluation Question
EU	European Union (institutions)
EUBEC	European Union Platform for Blending and External Cooperation
EUD	European Union Delegation
FINDETER	Financiera de Desarrollo Territorial
IDA	International Development Association (part of the World Bank Group)
IDB	Inter-American Development Bank
IF	Investment Facility
IFCA	Investment Facility for Central Asia
IFI[1]	International Financial Institution
IFP	Investment Facility for the Pacific
IG	Investment Grant
IMF	International Monetary Fund
IRS	Interest Rate Subsidy

[1] The term IFI is used in this report when referring indistinctly to finance institutions such as the EIB, EBRD, AFD, KfW, IDB, EDFIs, etc.

ITF	EU-Africa Infrastructure Trust Fund
KfW	Kreditanstalt für Wiederaufbau
LAIF	Latin America Investment Fund
LIC	Low Income Country
LMIC	Low and/or Middle Income Country
MASEN	Moroccan Agency for Solar Energy
MDG	Millennium Development Goals
MFI	Microfinance Finance Institution
MIC	Middle Income Country
MSME	Micro, small, and medium enterprise
NIF	Neighbourhood Investment Facility
ODA	Official Development Aid
OECD-DAC	Organisation for Economic Cooperation and Development - Development Assistance Committee
PMU	Project Management Unit
PRGT	Poverty Reduction and Growth Trust
PSD	Private Sector Development
SME[2]	Small and Medium Enterprises
TA	Technical Assistance

[2] The use of the term SME in this report also covers micro enterprises where relevant.

Executive Summary

The evaluation's purpose, scope and background

This evaluation of blending as an EU aid delivery mechanism aims to:

- provide an overall and independent assessment of blending.
- identify key lessons and recommendations to improve and inform future choices on blending.

The scope includes EuropeAid support through seven investment facilities over the period 2007-2014: EU-Africa Infrastructure Trust Fund (ITF); Neighbourhood Investment Facility (NIF); Latin American Investment Facility (LAIF); Caribbean Investment Facility (CIF); Investment Facility for Central Asia (IFCA; Asian Investment Facility (AIF) and, Investment Facility for the Pacific (IFP). Geographically the scope is the regions covered by the seven facilities.

Total EU funding allocated to the investment facilities during 2007-2014 reached more than 2 billion Euros, representing 4% of DEVCO's funding. The amount effectively contracted (at 31/12/2014) reached 1.7 billion Euros and covered just over 200 projects in 46 countries.

Methodology

The evaluation is based on the methodological guidelines developed by the DG DEVCO Evaluation Unit. It was conducted in four main phases - inception, desk, field, and synthesis. The evaluation was managed by the Evaluation Unit, incorporating all relevant EU services in a reference group that was responsible to oversee the process. Nine evaluation questions (EQs) were formulated following a structured process based on analysis of EU policy framework and reconstruction of EU intended intervention logic related to blending. An inventory of EU support for blending was prepared and evaluation questions, judgement criteria and indicators were defined to guide data collection and analysis. The evaluation questions were clustered in 3 pillars: strategic relevance, value added and results.

A relatively wide desk sample of 46 projects was selected. Field visits were made to 12 countries and 32 projects were visited (of which 26 were in the desk sample). The evaluation used a combination of tools and techniques for primary and secondary data collection, including an online-survey to 38 EU delegations, analysis of regional and country strategy papers, literature review, meta-analysis of evaluations/audits, interviews with stakeholders. The stakeholders consulted included: beneficiaries and users of the facilities implemented, national partners, EU delegations, IFIs, the EC and civil society organisations. The evaluation was implemented between January 2015 and July 2016.

Conclusions

Strategic relevance:

Conclusion #1 Blending allowed the EU to engage more broadly and with strategic advantage - particularly in support of large infrastructure projects and for cooperating with countries in transition to medium income status.

Blending enabled the EU to engage in countries (lower medium and medium income countries), sectors (infrastructure) and projects (with specific policy challenges) which would have been mostly out of reach with grants alone.

Over 80% of blending during the period served lower medium or medium income countries (for projects taking place in a single country). The countries supported were characterised in some cases, by not being in eligible for grants and in others, as only being eligible to take highly concessional loans - due to the International Monetary Fund (IMF) debt sustainability framework.

Over 75% of blending operations were in capital-intensive infrastructure sectors (energy, transport and water & sanitation) which, by sheer project size, would be largely out of reach of development support were they to be funded by grants alone.

In more than half of the cases examined, blending addressed special project-level challenges that required grants and led to improved development impact. The special challenges arose from weakness in market mechanisms and, in some case also from the inability of the state to provide public goods.

These challenges tended to block action by private and public sector actors to carry out projects that were otherwise economically feasible and in their interests. The challenges were also related to deficiencies in the information environment, in the perception of risk and, in the capacity and knowhow of the private and public sector (including failure in technology diffusion).

Often, the special challenges responded to by blending were associated with overcoming the presence of vested interests, severe regional disparities, and gross inequalities that distorted and complicated decision-making in a way that blocked action on important projects.

Blending also addressed the case of countries that for a variety of reasons did not have the fiscal space to take on the full borrowing cost of an un-concessional loan – even if that loan would have allowed them to benefit from positive externalities and finance highly economically feasible projects that were not financially feasible. Neither did they have the fiscal space to contribute fully to financing global public goods such as climate change and biodiversity. Just over half of the projects sampled (24 of 46) were under the debt sustainability framework of the IMF whereby counties can only borrow under highly concessionary terms, making grants necessary if the project is to go ahead. Many of the other countries in practice adopted the debt sustainability rules even if not obligatory.

The evaluation found among the sample of blending projects cases where the use of the grant:

- Improved the information environment so that private sector actors could make the right decisions (information).
- Changed the perception of risk so that investors were encouraged to invest in productive investments (risk).
- Introduced and developed capacity to make use of new technology (capacity).
- Covered part of the political cost of difficult reforms (reforms).
- Enabled market forces to reach marginalised population groups (social disparities).
- Ensured that economically feasible projects with high environmental and social benefits go ahead even if financially not feasible (positive externalities).
- Provided and encouraged contribution to global public goods such as mitigation of greenhouse gas emissions (global public goods).

Blending, through its leverage of loans, was associated with around 20 times more development funding principally key development finance partners but also to a lesser scale private sector investors. Project by project analysis shows that blending grants have either caused other funds to be mobilised (such as private sector investors in the EFSE project), and/or enabled previously earmarked funds to be formally approved and committed (e.g. for the Lake Turkana Wind Power project), and/or redirected funding to policy-compliant objectives (such as for the Seychelles Internet Connector project where grants were used to widen access to the internet). Whilst leverage does not apply causality where there is a "special challenge" as there is for most cases, there is also a strong argument without the grant the project would either: i) not have gone ahead or ii) would have had to find another source of grant subsidy to avoid being severely limited in its impact. In these cases blending engaged in projects that could not have been undertaken purely through loans and as mentioned earlier, the volume and size of the projects would, if funded by pure grants, have consumed a disproportionate amount of the available EU funding.

Blending offered the EU opportunities to increase its potential sphere of influence on the global development stage because blending has had a causal role in mobilising additional project finance in half the cases examined in-depth and by virtue of mechanically providing the EU – through the investment leverage ratio - a potential 'seat at the table' of lead donors, which is a way for the EU to further its policies effectively and steer other development projects. The team could not gather evidence on the extent to which the EU has actually made use of this potential for increasing its 'sphere of influence', mainly because this matter - which would merit a report of its own - falls outside the scope of this study.

Conclusion #2 The blending instrument, particularly for projects approved in the earlier phases, did not reach its full strategic potential and did not address as fully as it could have the development challenges of lower income countries - for a variety of reasons

Some 72% of blending resources have benefitted lower medium (56%) and medium income (16%) countries – although this is highly influenced by the historical dominance of the Neighbourhood Investment Facility. During the same period the overall EU support to lower medium and medium income countries was 69% responding to the challenges of ensuring that countries that have recently attained lower medium income status do not slip back. The number of lower income countries has halved from 58 to 28 from 2000 to 2014. It should

also be noted that large income disparities exist within lower medium and medium countries meaning that activities in these countries can still target the poor. It is also relevant to note that blending by only engaging with countries that have the fiscal space to take additional loans rightly tends to focus on the less poor countries. Nevertheless, 26% of blending focussed on low income countries. And, some 9 projects in fragile states have also been carried out. Two projects visited during the field missions indicate the potential that has been realised for poverty alleviation in low income countries (one involving water supply and sanitation in Uganda and another involving access to electricity the Atlantic province of Benin). These and other projects indicate that blending has a potential and capability to address the challenges of low income countries. But it is also apparent that without some changes in the historical practice of identifying projects, blending will find it difficult to respond to a greater prioritisation on supporting the development needs of lower income countries.

The additionality of the blending grant i.e. the focus on resolving specific challenges that could not be solved by a loan alone was not systematically emphasised in the earlier years under evaluation. Pro-poor objectives were not emphasised in the development of the project pipeline. Blending projects were not as closely aligned with national policies and priorities as they could have been. The blending guidelines which address these issues were developed late - some 7-8 years after the first blending operations were launched and it was only recently that the application forms were explicit in their demands for justification for the grant.

Too few IFIs were involved from an earlier stage. While there was an understandable need at the outset to concentrate on 'making blending work' with a few partners, over 90% of blending is still done with four major partners (EIB, KfW, AFD, and EBRD).

The positive findings on blending could lead to the question: how much of EuropeAid's support should be blended?' (it was about 4% for the 2007-2013 development cycle, and may reach 8-10% in the current 2014-2020 development cycle). Whilst this evaluation can contribute to addressing this question it cannot entirely resolve it – a resolution goes beyond this evaluation, as it needs detailed policy analysis, requires insights into the effectiveness and relevance of other instruments like budget support, the actions of other donors, it is also a country specific issue and, ultimately requires a policy level decision. What can be said at this stage is that there will be a set of countries (lower medium and medium income countries), sectors (especially but not exclusively infrastructure) and projects (those with specialised challenges) where blending potentially has a comparative advantage over pure grants and in many cases would also be the most effective support instrument. There are also prospects, which would require a change in current practice, to direct more blending support to lower income countries and target more clearly the poor (both in low income and lower medium countries). The proportion that blending makes of total EuropeAid then depends principally on the EU policy priority on those countries, sectors and projects and on the degree to which blending can succeed in sharpening its pro-poor dimension and therefore also relevance to lower income countries.

Value added

Conclusion #3 Blending has, in many instances, added significant value to the EU's grant based development cooperation and also brought added value to IFI loan operations.

Where value has been added it has related to: leveraging policy reforms, creating high quality projects, unlocking available finance for improving access to finance and improving coordination to EU development cooperation.

Some blending projects contributed – mostly through technical assistance grants - to the advancement of the national policy reform agendas that were also more widely supported by the EU and other partners such as the World Bank. There are examples of blending constructively supporting policy reforms particularly in the energy, transport and water and sanitation sectors across geographic regions.

Blending projects, often by directly using the grant made available, have led to robust and well-functioning projects that have been prepared with rigour - for example on ensuring high quality environmental impact studies. There have been long delays, which is not unexpected given the scale and complexity of the projects. But in most cases the projects, through close monitoring, often supported by grants for project management units and other support structures, have delivered to specification and avoided excessive cost overruns. Operation and maintenance has been taken seriously and plans and procedures were drawn up to varying degrees by all the projects sampled.

Blending also added value in widening the access to loan finance and reducing the financial barriers for micro, small and medium size enterprises. Close to 8% of the blending funds (Euro 130 million out of a

contracted value of Euro 1.7 billion) were aimed at improving access to finance.

Blending led to strengthened donor coordination especially in the recent years where there was a greater involvement of the EU delegations.

Blending has mobilised the skills and experience of the IFIs and through its scale also served to deepen and enhance these skills within the IFIs. Without the blending operations carried out through the IFIs, the EU would not have been able, at least with its current staffing arrangements, to engage to the same extent in complex and large scale infrastructure and access to finance operations. The banking, risks management and project supervision skills of the IFIs have added value to the EU development cooperation. And, the development insights of the EU have added value to the operations of the IFIs.

Conclusion #4 Blending grants have played a role in supporting private sector development mainly within the finance sector:

By financing C shares, blending grants have contributed to the mobilisation of private sector financial resources for projects with a development effect. By providing partial credit guarantees funded by blending grants, there is evidence that banks have expanded the sector breadth of their lending portfolios to include for example agriculture which was previously considered too high risk. There is evidence that some new borrowers, previously unbanked, have been drawn into formal finance, but there is also contrary evidence that these special lending schemes supported by blending grants have mainly financed small enterprises which already had bank loans.

The full potential of blending to mobilise the private sector within industry, energy, agriculture and other areas is not yet reached. New instruments under development such as ElectriFI and AgriFI have the potential to extend the reach of blending approaches and lead to longer term private sector development.

There is an impression that micro-finance institutions may be best placed to reach new, hitherto unbanked, borrowers because they can assess smaller riskier customers, but this does not imply that banks with specialised risk management capabilities adapted to SMEs could not achieve the same. It should be noted that the European Commission has an extensive portfolio of development cooperation projects with micro-finance institutions outside of the blending facilities.

Conclusion #5 The lead IFIs approved by the EU have internal procedures that are a major element in ensuring the high quality of blending projects; the closely scrutinised process of project by project approval by the EU and the provision of grant funds for technical assistance support the development of high quality projects especially where the risks are higher.

The procedures of the IFIs are thoroughly assessed by the Commission prior to authorize an IFI to act as Lead. Through the preselection of IFIs and the closely scrutinised project by project approval, the Commission only contributes to the financing of projects with high quality standards. These projects are prepared by IFIs based on their internal procedures and due diligence and in accordance with the division of labour agreed with blending partners.

However, although blending grants were often used to enhance and ensure good quality, the adherence to international norms and best practice was ultimately the responsibility of the IFIs. The EU contributed through prudent selection of suitable IFIs to act as lead and by supporting the adoption of high standards.

Technical assistance grants for blending projects have been used to ensure: project design that was well-conceived and robust; implementation that was closely supervised and, attention to operation and maintenance. These grant funds provided through blending have allowed the IFIs to respond to a wider set of project opportunities, including those where the risk level of projects of an insufficient quality would have been too high without substantial grant funding

Similarly, although coordination and transactions costs have significantly improved, compared to the days of parallel financing (where each IFI and donor would independently finance a specific element of a project) it could be argued that this is more a result of the Mutual Reliance Initiative (MRI) which although associated with the EU (and developed in response to the early challenges of blending and non-blending projects) is not unique to or dependent on blending. Blending however, takes full advantage of the MRI and the MRI approach is compulsory for blending operations.

Conclusion #6 There are also cases, particularly for the older projects, where the value added was less than the potential

It should be noted in the context of the contribution of blending to policy change, that the main objective of many of the blending projects was not to bring

about policy changes but to provide much needed infrastructure. Nevertheless, the scale and national importance of blending projects, often in sectors that are dysfunctional but undergoing partially implemented reforms, creates an important opportunity for developing institutional capacity and bringing in much needed changes in policy and practice. In many cases blending projects have responded to these opportunities as evidenced elsewhere in this evaluation. However, there are also a significant number of cases where influence on policy reforms and institutional capacity has been disappointing. An example is the Pont Noire port in Congo Brazzaville where the otherwise largely successful investments in the new port did not address the wider policy related issues of longer term sustainability of the infrastructure and did not take into account the role of the port as part of an overall transportation masterplan.

A very few examples (outside the formal sample) were found where early blending projects pushed ahead with projects that ran counter to the policy reform efforts of the EU delegations, especially as concerns the establishment of cost recovery systems.

There have been some cases where the lines of credit being offered to increase access to finance did not have the intended effect as the country was over-liquid and needed credit enhancement rather than additional lines of credit. In other cases, there were examples such as in Moldova, where the credit reached existing rather than new customers and did not add value in the sense of widening access to finance.

In the opinion of partners and project implementers the transaction costs of some blending projects were high due to the use of procurement and other rules that were unfamiliar and sometimes incompatible with national procedures. Blending by involving multiple financing partners sometimes introduced additional complications and conditions despite the otherwise helpful effect of the mutual reliance initiative.

Whilst it is true that there was compliance with visibility rules and criteria, recognition of the EU role was still weak for most projects – as a result, there was a potential loss of political capital.

Conclusion #7 A body of good practice on adding value has been developed and has led to lessons learned that form a basis for continual improvement.

Good practices that positively influenced policy leverage included:

- Linking blending projects with wider reform packages, EU focal sectors, budget support (e.g. in Egypt and Morocco) and relevant EU partnership/ association agreements (e.g. Georgia and Armenia).
- Mobilising the knowledge and insight of IFI country offices with a long track record of focussed support to specific sectors.
- Implementing capacity development strategies that optimised the impact of technical assistance on future institutional performance.
- Incorporating a transition or policy related objective into the core objective, rationale and design of the project - such as was the case for the later EBRD projects.

Results

Conclusion #8 To a large extent blending projects, have been successful and have already achieved or are likely to achieve the intended results and there is evidence that the project outputs are being used and appreciated by the beneficiaries.

The majority of completed and close to completed projects have achieved (or are likely to achieve) their intended results – albeit often with long delays

In common with most complex projects operating in the challenging environments typically found in many developing and transition countries, the main factors that positively affected project implementation were related to: the soundness of project design, the quality of project monitoring and, the professionalism of partners and contractors. The main factors that negatively influenced project implementation were: the lengthiness of reform processes, administrative bottlenecks and political instability at country level.

A feature that stood out for blending projects was that the IFIs had adequate systems, approaches and procedures in place to put blending projects back on track when they were delayed or subject to unforeseen changes.

The supervision and the monitoring of physical and financial project progress by the IFIs or their agents has been thorough. However, the degree to which socio economic, transition and development impacts (as opposed to physical progress) were monitored varied and was often a weak point of the blending projects.

There are also a few cases where projects did not succeed and did not contribute as planned to

economic development or poverty alleviation because they did not reach their intended results. Examples include the Caprivi connector project and the Beira corridor project in Southern Africa.

There is little information available on job creation. Only five out of twenty-one projects reviewed actually aimed to impact positively on the creation of jobs and new businesses, and only three of them set quantitative targets to be reached in terms of temporary and/or permanent job creation. Available information points mainly to direct employment during the construction period. Nevertheless, a literature review indicates that the type of investments supported by blending, mostly large infrastructure projects in energy/transport/water in low-middle income or low income countries, have a positive effect on employment level.

Conclusion #9 Project design was sound overall and as a consequence most of the projects that are still incomplete are likely to lead to their intended impact, however the internal project logic particularly for earlier projects was weak and the potential for poverty alleviation not optimised.

The logical framework used for planning activities was generally not sufficiently complete and was sometimes unrealistic. Whilst the logic of the results chain was overall well-conceived, the full transmission chain from activities until results was most of the time not sufficiently spelt out and articulated in the design documentation.

In many cases the nature of the blending projects and the comparative advantage of blending meant that blending projects aimed at macro-economic development rather than direct poverty alleviation. Large scale infrastructure aiming at improving the macro scale economic development can be an important and also essential contribution to poverty alleviation – but the linkages are not automatic and the targeting and selection of the projects and the consideration of alternatives to better serve the poor need to be informed and justified by more in-depth analysis than was usually available. However, even bearing this in mind the comparative advantages of blending, there were missed opportunities to better and more directly target the poor (there are examples of projects across all sectors that were successful in this regard e.g. Kampala water and Sanitation, Uganda and electricity transmission and distribution to rural villages in the Atlantic province of Benin). Gender was rarely targeted. The gender of borrowers, for the project focussing on lending to SMEs and individuals, is not noted or emphasised in the reporting although in many of the countries, gender is a key issue for improving access to finance

Within improving access to finance, the prudent practices of the IFIs and their partner financial institutions led to a tendency to target existing customers, and hence not to focus on less privileged market segments.

Recommendations

Recommendation #1 Focus strongly on the additionality of the blending grant.

The early projects often failed to make the additionality of blending grants explicit. Yet this should be a key focus of any blending application – to truly focus on "what the project will have with the grant that it otherwise would not have". This recommendation can be achieved through action such as:

- Emphasise the need for the grants to solve a problem (such as a market failure or a failure to provide public goods) that cannot be as well solved with just a loan. This has already been recognised in the latest application form, where topic 29 requires the IFI to explicitly address additionality.
- Continue vigilant and close scrutiny in the technical assessment meetings at facility level.
- Consider using resources for post construction follow up on sustainability issues.
- Expand the use of risk sharing approaches; in particular, scrutinise the use of investment grants so that they are only used where highly justified and, consider innovative measures to bring technical assistance under loan rather than grant finance, including the use of revolving funds for grant financed project preparation work.

Recommendation #2 Expand the number and specialisation of IFI partners and ensure that training is provided in line with the expansion

Rationale: Expanding the number of financial institution partners should increase the range and volume of blending applications presented to the facilities – noting that very few have been rejected. This recommendation can be achieved through action such as:

- Encourage regional non-European development banks to participate actively and where relevant lead on blending (AfDB for AfIF, IaDB and CDB for the CIF).
- Where relevant brief, build awareness and support other IFIs that have a potential for future blending operations such as AfDB).
- Explore new partnerships with European development financial institutions and other European institutions.
- Explore, in the longer term, the potential of partnerships with civil society based organisations that have a robust track record of managing loan funds (this could if well managed bring a new dynamic to implementation of recommendation #5 on enhancing the poverty impact).

Recommendation #3 Sharpen the alignment of the blending project with national policies.

Although blending projects were broadly aligned with the facilities' objectives, the explicit link between the project and national objectives and priorities was often not clear enough. This recommendation can be achieved through action such as:

- Increase the awareness of IFI staff and EU delegation staff.
- Pay special attention to topic 22 in the application form which requires explanation of policy alignment, ensuring that this relates not only to the facilities' policy objectives but also to relevant national policies.
- Ensure that the technical assessment meetings scrutinise this aspect in detail.

Recommendation #4 Build on the advances of the post 2014 blending guidance framework and continue with improvements and innovation in project design in order to ensure that blending projects optimise the potential to achieve the development cooperation goals set out by the EU.

The development potential of blending has not been fully mobilised in the past. The findings of this evaluation support the application of the approaches outlined in the new guidance framework. It is noted however, that whilst the guidelines are well-conceived and respond to most of the challenges faced by blending projects, it is also important not to over-complicate blending operations and rely on a lean approach combined with skill building within the IFIs. This recommendation can be achieved through action such as:

- Incorporate the development and transition aims more explicitly in the objectives, intervention logic and results matrix, policy reform and transition goals;
- Undertake capacity assessments and incorporate capacity development outcomes in the results matrix;
- Subject the assumptions, the justification of the grant and the assessment of risks to sharper scrutiny

Recommendation #5 Expand the use of risk sharing instruments to financial intermediaries selected for their strategy and policies with respect to pro-poor and pro-development risk taking. This can be achieved by actions such as:

- Using special risk cushions to crowd-in private funding making further effort to make that more efficient (i.e. a lower ratio of C-shares to private investments coming from a wider range of risk tolerant private investors)
- Extending credit guarantees and focusing future innovation on creating sustainability for when the guarantees are reduced
- Improving access to finance for the unbanked by selecting financial intermediaries for their strategy, policies and risk management approach for first-time borrowers, as well as because of their status as effective banking or micro-financing institutions.

Recommendation #6 Achieve greater development impact through blending projects by placing greater focus on job creation and poverty alleviation.

Blending projects generally aimed at wider macro-economic development rather that grass root targeting of the poorest of the poor for which other instruments are usually better suited. Although blending projects lead to job creation this was not monitored (it is now through the new results framework) and job creation effects are not optimised. It is important to recognise that although blending cannot address all issues and has a comparative advantage in serving large scale economic development aims, there are still many opportunities to also optimise impact on poverty alleviation and the creation of decent work. This recommendation can be achieved through action such as:

- Scale up the blending resources available for projects serving poor populations and addressing root causes of poverty in low and lower medium income countries including employment related issues – adjusting the grant levels where justified;
- Analyse and understand the poverty and employment profile in the project-affected area consider explicitly the needs of the poor and measures that protect the poor against potential adverse effects;
- Where projects have an infrastructure or macro-economic development focus and in the spirit of the European External Investment Plan, examine and if relevant support and ensure that advantage is taken of the downstream employment prospects e.g. an improving electricity supply that can expand SME activity.
- Select partners such as micro finance institutions, where relevant to do so, that will be effective in reaching the poor.

Recommendation #7 Undertake assessment of the partner's procurement and contracting systems to better align the strategy for PMUs and use of IFI procurement and other procedures so that they strengthen national systems.

Much of the transaction costs and frustration experienced by implementing partners on blending projects arose from IFI procurement and other management systems. Whilst it is recognised that the IFIs assess partner capacity, rely on partners to implement the procurement and provide technical assistance where there is weakness; there is still further opportunities to strengthen the capacity of partners and partner systems rather than bring in new staff and substitute with new systems. This recommendation can be achieved through action such as:

- Assess the partner institutional capacity and fiduciary performance;
- Assess safeguards that could be taken such as strengthening partner systems before replacing them with external IFI systems (where relevant link to, support and take advantage of budget support to public financial management and administrative reforms that are being supported by the EU and others);
- Develop an institutional and capacity development strategy that ensures that even if external IFI systems are used, residual capacity for project management will remain where such capacity is needed in the future.

Recommendation #8 Take a pro-active stance on visibility where such visibility is particularly important or likely to lead to political capital or other gains.

Visibility rules are generally followed by the IFIs but the in-country perception of the projects rarely reflects the involvement of the EU. If the range of IFIs are expanded beyond the European IFIs, this low visibility effect will become even stronger. This recommendation can be achieved through action such as:

- Encourage in the project design a continuous outward accountability to the beneficiaries and political level on the evolution and performance of the project. This means that the project should advertise itself locally and explain to politicians and to the beneficiaries and others what it is doing, why it is doing it, and what it has achieved. It should invite for example local schools and communities to the site and get them involved.
- Prioritise active engagement of EU delegations in seminars, conferences, press releases, for projects

where greater visibility and recognition is likely to bring political capital or other benefits;
Carry out visibility surveys and undertake corrective action depending on the perception found.

1. Introduction

The Evaluation Unit of the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO) has commissioned ADE to conduct an independent evaluation of the EU's blending modality.

The present report is a draft of the study's final report. Its purpose is to present the evaluation's findings and conclusions across three pillars: the strategic relevance of blending, its added-value, and its results. It then presents recommendations drawn on this basis.

1.1 Objectives and scope of the evaluation

The object of the evaluation is Blending as an EU aid delivery modality.

The purpose of the evaluation is twofold:

- It aims at providing an overall independent assessment of Blending;
- It should allow, on this basis, to identify key lessons and to produce recommendations to improve current and inform future choices on Blending.

The scope consists of the following dimensions:

- *Institutional scope*: EU support through seven investment facilities (IF):
  - EU-Africa Infrastructure Trust Fund (ITF);
  - Neighbourhood Investment Facility (NIF);
  - Latin American Investment Facility (LAIF),
  - Caribbean Investment Facility (CIF),
  - Investment Facility for Central Asia (IFCA),
  - Asian Investment Facility (AIF)
  - Investment Facility for the Pacific (IFP);
- *Geographic scope*: the regions covered by these seven facilities;
- *Temporal scope*: 2007-2014;
- *Thematic scope*: the range of broadly defined sectors covered by these facilities, i.e. energy, transport, water/sanitation, finance for SME, social, and environment.

1.2 Structure of the report

This introduction summarises the objectives, scope, process and methodology of the evaluation, and presents the context in which the modality took place. The report then provides the findings of the evaluation along the following lines:

- Chapter 2 presents the **strategic relevance** of blending in light of the evolving context in developing countries and potential changes in EU development policy:
- Chapter 3 discusses all aspects of **added value** that blending is credited in theory to bring about (be it financial or non-financial type of added value) as well as potential unintended negative effects (e.g. impact on debt sustainability, crowding out finance, etc.);
- Chapter 4 presents the development **results** achieved by the projects funded through blending, including the extent to which these projects have benefited the poor:

- Chapter 5 presents and **overall assessment** and the **recommendations** of the evaluation.

In annex of Volume I can be found the Evaluation Matrix and the link between findings and conclusions.

The report contains two volumes of annexes:
- Volume II provides the main **evidence** for the findings: inventory, detailed answers to each Evaluation Question, the country notes, and survey results;
- Volume III provides details on the **methodological approach**: ToR, methodology, list of persons met, and bibliography.

1.3 Context

Blending can be defined as the strategic use of a limited amount of grants to mobilise larger amounts of financing from partner Financial Institutions (referred to as IFIs in this report) and enhance the development impact of investment projects.

The joining of grant money with other more commercial sources of financing is not new. 'Co-financing' has been on the scene since the 1970s with grants often funding the technical assistance component of FI-financed development projects. What is new though is the broader application of grants to 5 different instruments in the blending 'family'. These include the: (i) Direct Investment Grant; (ii) Interest subsidy grant; (iii) Risk capital; (iv) Guarantees ; and (v) Technical assistance. Blending is therefore an approach describing a family of five fairly diverse financing instruments.

Since the first blending facility was established eight years ago, blending at the EU has been a hive of activity. It is now global in coverage and the EU channels operational aspects through seven regional facilities, which present differences in terms of age, size, geographic and sector coverage, and also of objectives, governance, modalities. Blending is undergoing a range of adjustments; the work of the EUBEC (the 'Platform') is complete, and its seven technical parties (application and screening, monitoring and reporting, financial instrument innovation, governance, results measurement, private sector, and climate change) recommended a wide range of changes. For example, introducing a new application form linked to twelve revised screening criteria and streamlining of decision taking within a revised governance structure. Other changes underway include the creation in 2015 of the Africa Investment Facility (AfIF) as successor to the ITF to bring it into line with the other six Facilities, an increase in the role of EU Delegations in the programming of blending projects, and discussions on the future evolution of blending (perhaps involving the private sector and more use of Public-Private Partnerships as blended finance projects).

Figure 1: Establishment and Coverage of Blending Facilities

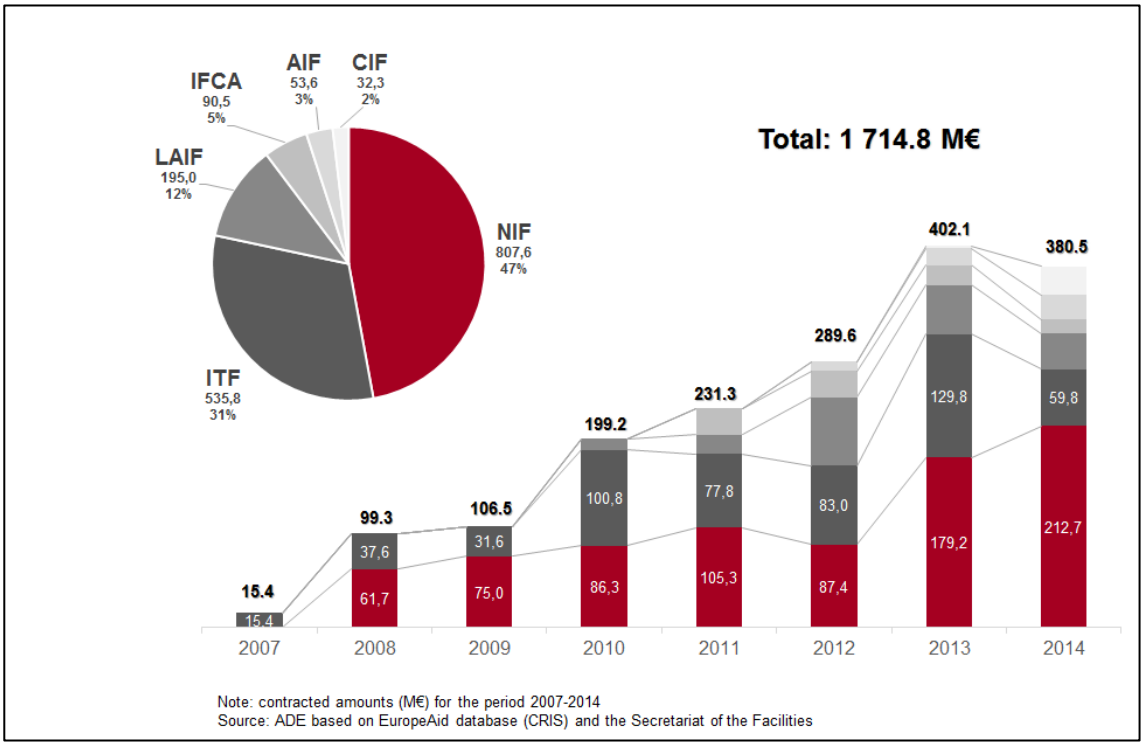
FACILITY	ITF	NIF	LAIF	IFCA	AIF	CIF	IFP	TOT
Year established	2007	2008	2010	2010	2011	2012	2012	
Region	Sub-Saharan Africa	ENPI countries	Latin America	Central Asia	Asia	Caribbean	Pacific	
Cumulative envelopes (2007-2013) - €m	801*	867**	197	85	60	70	10	**2090**
2014 envelope	n/a	362	30	20	20	n/a	n/a	**432**

* Including € 163 m from Member States
** Including € 78 m from Member States
Data up to 31/12/2014: Source Unit C3 DEVCO
Source: ADE

Total EU funding allocated to the investment facilities during the temporal scope 2007-2014 reached more than 2 billion Euros (2 316.2 M€), which represent 4% of DEVCO's funding. The amount effectively contracted (at 31/12/2014) reached **1.7 billion Euros** (1 714.8 M€).

Since 2007, 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.

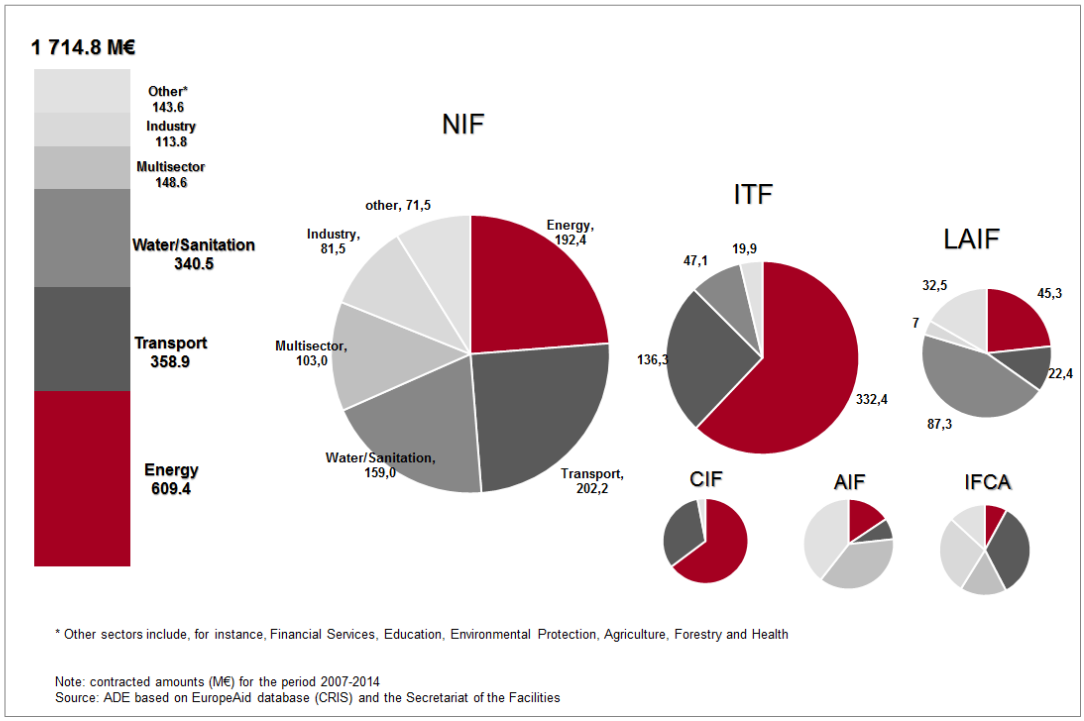
Figure 2: Evolution of EU contribution per facility and over time



Investment Grants (44.4%) and Technical Assistance (33.3%) are the types of support most commonly provided.

Energy is by far the biggest sector in which EU blending has been provided (35%), followed by Transport (21%) and Water & Sanitation (20%).[3] 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.

Figure 3: EU blending funding by sector



A detailed presentation of the inventory can be found in the Volume 2 Annex B1.

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

1.4 Outline of the methodological approach

1.4.1 Overall approach and process

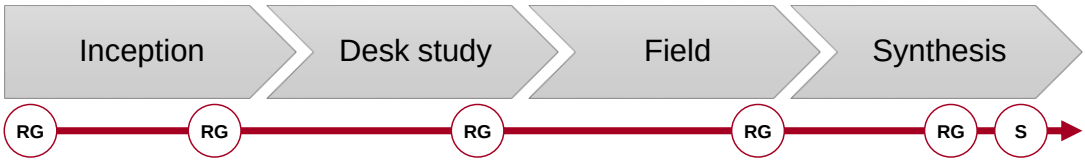
The methodology for this evaluation followed **DG DEVCO's methodological guidelines** for thematic and other complex evaluations, which is itself based on the OECD-DAC approach. It also took account of good practices developed by ADE for evaluations of aid delivery instruments.

A **theory-based non-experimental design** was applied for this evaluation [4], using a reconstructed theory of change as the basis for assessing the contribution of blending to EU cooperation. The analytical framework is mainly based on Contribution Analysis principles. The approach uses a theory of change analysis. Evaluation questions structure the analysis with a view to assess to what extent and how EU blending contributed to attainment of objectives set. The analysis responding to each Judgment Criteria, informed by the examination of indicators, constitute the main elements of the answer to each EQ. On that basis the evaluation team provides a synthesised answer to each EQ. The evaluation team specifies the information and the quality of the evidence for each of them. From the answers to the EQs, the team derives a set of Conclusions and Recommendations on the blending instrument.

The evaluation process followed a well-defined sequential approach. The phases with the main activities, deliverables, and meetings with the Reference Group are presented in the figure below.

Figure 4: Evaluation process

[4] Theory-based evaluation is an approach in which attention is paid to *theories* of policy makers, programme managers or other stakeholders, i.e. collections of assumptions, and hypotheses - empirically testable - that are logically linked together.



Tasks

Inception	Desk study	Field	Synthesis
• 3-day kick-off visit	• Strategy analysis	• 12 country missions	• Responses to EQs
• Literature review	• Projects analysis	• Debriefing	• Conclusions
• Inventory	• HQ interviews	• Surveys (conduct)	• Recommendations
• Intervention logic	• Surveys (launch)		• Seminar
• Process flow diagram	• Preliminary responses to EQs		
• EQ/JC/Indicators	• Approach for field phase		
• Fine-tuned approach			
• Selection of interventions			

Deliverables

Inception	Desk study	Field	Synthesis
• Inception Report	• Desk Report	• Debriefing presentation • Country Notes	• Draft Final Report • Final Report • Seminar PPT

RG: Reference Group
Source: ADE

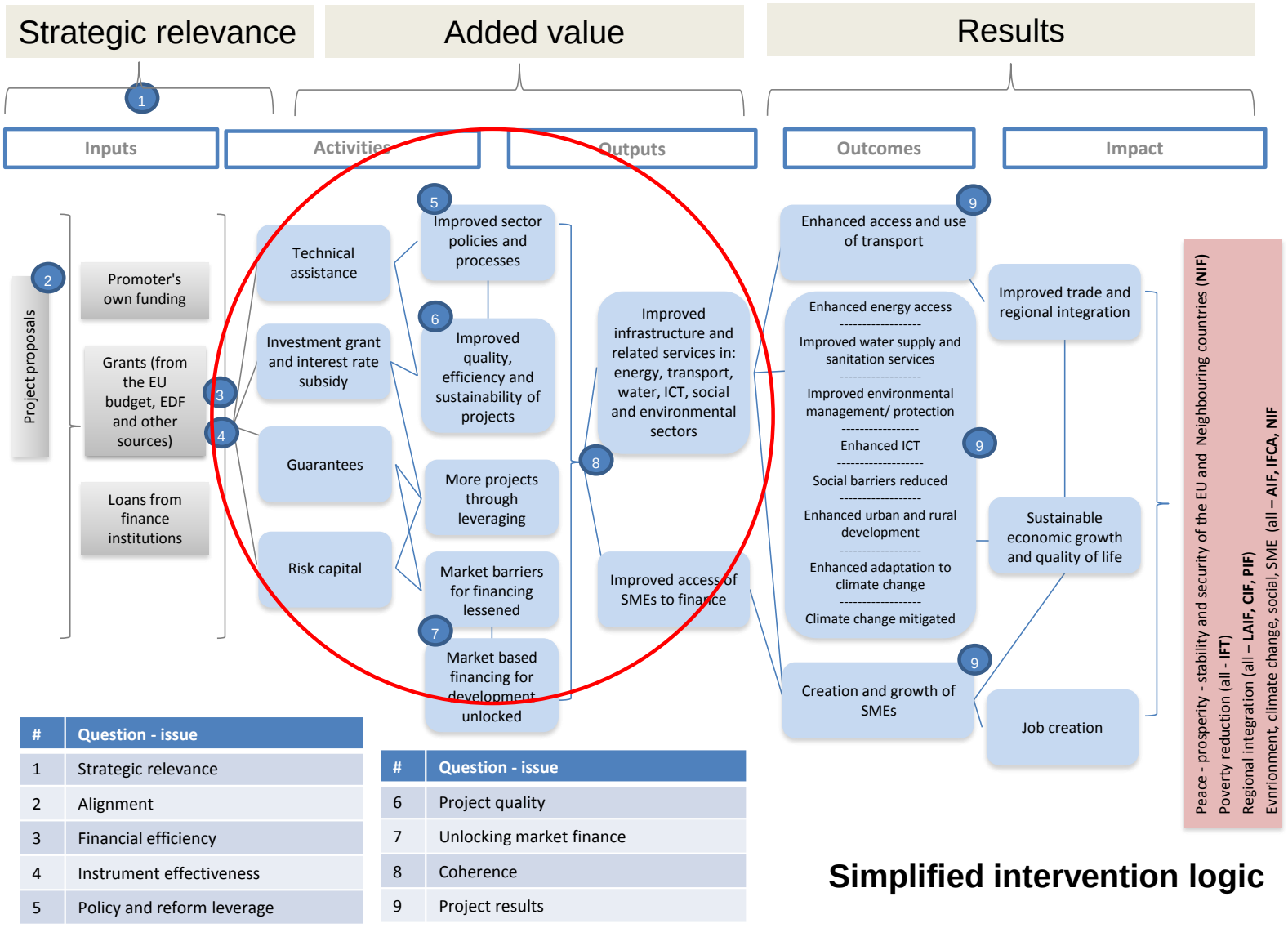
The evaluation has been supervised by a Reference Group consisting of relevant services from the Commission (DG DEVCO, NEAR, ECFIN, TRADE, ENV, etc.), the European External Action Service (EEAS) and financial institutions involved in blending operations (IFIs). A wide range of other stakeholders have been consulted during the exercise, including implementing partners, end users, and civil society organisations.

Details on the methodological approach are provided in the dedicated Volume III, including the Terms of Reference, the detailed approach, the bibliography and the list of persons consulted throughout the exercise. Key elements of the approach are briefly described hereafter.

1.4.2 Theory of change

The EU proposed in the ToR an outline of the intervention logic presented on the next page, reconstructed based on extensive internal discussions with the Reference Group. The team used it as a starting point for further completing the overall theory of change, on which basis the Evaluation Questions were formulated.

Figure 5: Theorgy of Change: the overall intervention logic of blending



#	Question - issue
1	Strategic relevance
2	Alignment
3	Financial efficiency
4	Instrument effectiveness
5	Policy and reform leverage

#	Question - issue
6	Project quality
7	Unlocking market finance
8	Coherence
9	Project results

Source: DEVCO (ToR)
Note: numbers refer to the Evaluation Questions

1.4.3 Evaluation Questions

The analytical framework was structured around a set of 9 Evaluation Questions (EQs), which cover the evaluation's three main dimensions: relevance, value-added, and results. These dimensions are intrinsically interrelated, but also constitute a logical storyline for presenting the findings of the evaluation. Each EQ has further been detailed into Judgment Criteria and indicators.

The answers to the EQs are provided in Annex B2 (Volume II Evidence). They have been used as a basis to provide findings across the 3 dimensions covered by the evaluation (relevance, value-added, and results). The underlying evidence is provided in the evaluation matrix, which also indicates the quality of evidence collected for each judgment criteria.

Table 1: Set of Evaluation Questions

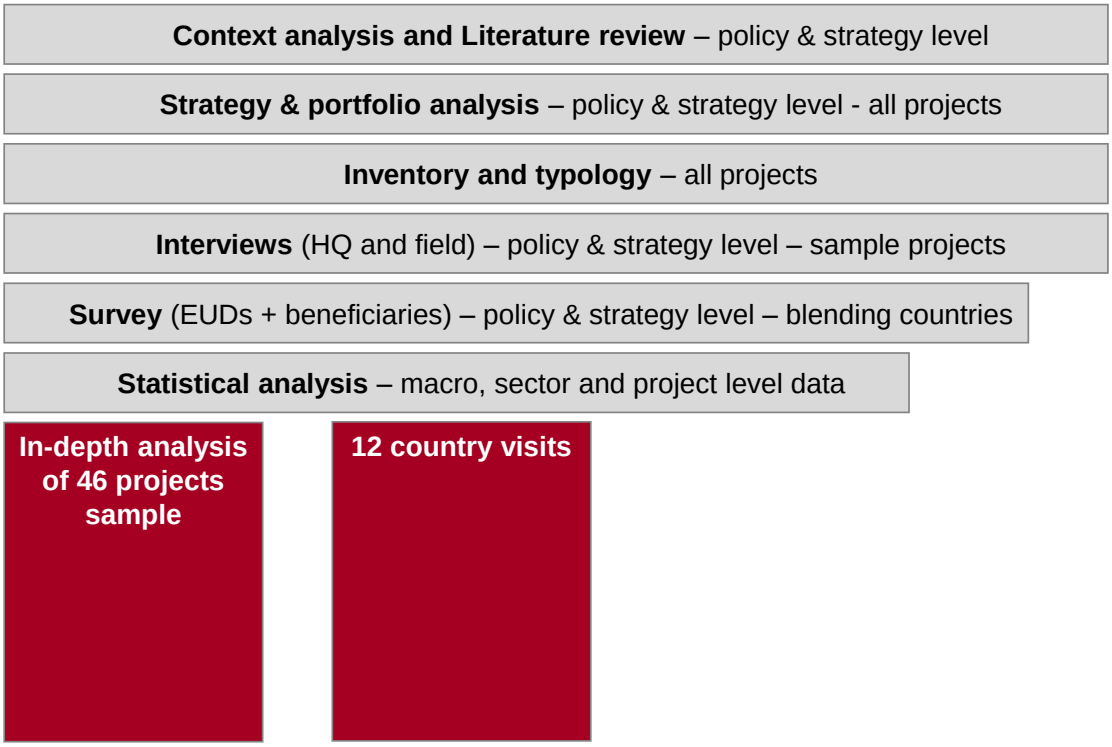
Relevance pillar	
EQ1 Strategic relevance	**To what extent is blending strategically relevant and valuable?**
EQ2 Project Alignment	**Has the EU pro-actively guided the pipeline of projects in order to align the portfolio with policy targets?**
EQ3 Financial Efficiency	**Has blending used the right level of grants?**
Value-added pillar	
EQ4 Instrument	**To what extent has the appropriate blending instrument or mix of instruments been selected?**
EQ5 Policy Reform	**To what extent have blended projects contributed to leverage policy reforms in beneficiary countries?**
EQ6 Project quality	**To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?**
Results pillar	
EQ7 Finance Barriers	**To what extent has blending contributed to improving access to finance for MSMEs?**
EQ8 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?**
EQ9 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?**

Source: ADE

1.4.4 Evaluation tools

The team relied on a set of tools to collect and analyse data for the different levels of analysis. They are briefly listed in the figure below, with a visual indication of the breadth and depth of the scope each of them cover. The combination of these tools enabled the team to collect all the required information at the level of the indicators, and to triangulate the information from different sources with a view to validate (or invalidate) the judgment criteria.

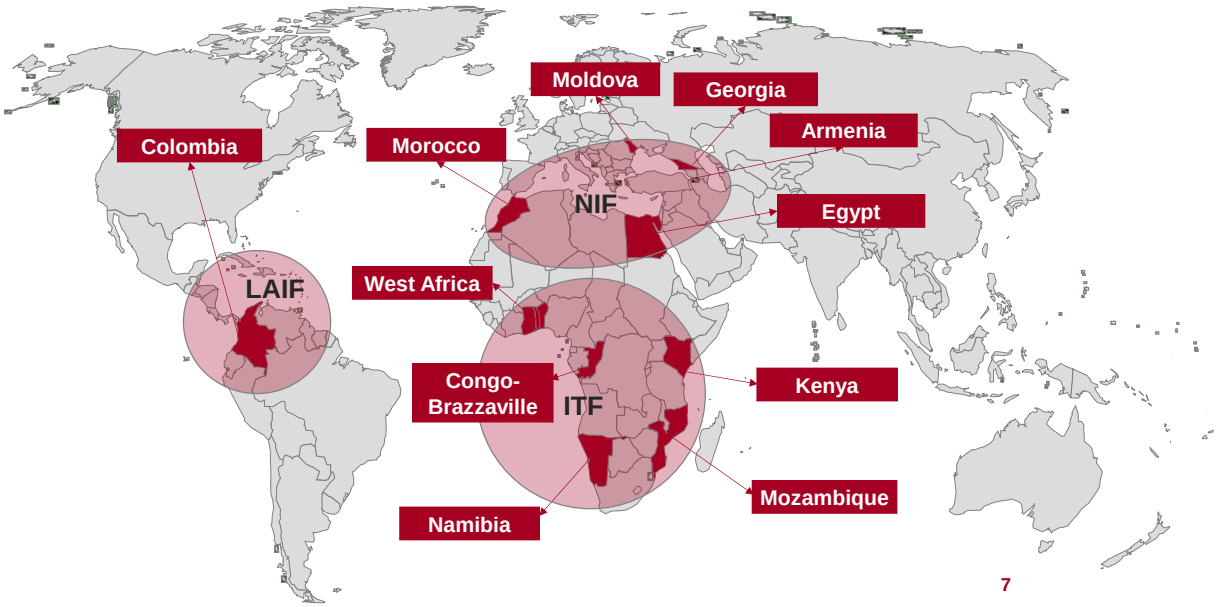
Figure 6: Evaluation tools



Out of the total of 203 projects, the main evaluation sample consisted of 46 projects subjected to desk study and 32 projects visited during in the field (of which 26 were in the desk sample). For some evaluation questions a wider sampling was used for example on working the leverage. Details on the interventions selected are provided in Volume III.

The twelve field visits focused on countries where tangible results could be observed – this is why they relate to the ITF, LAIF and NIF, i.e. the blending mechanisms for which there is most hindsight.

Figure 7: Field visits conducted



Source: ADE

1.4.5 Challenges & limitations

The evaluation team faced a number of challenges and limitations. The methodological approach followed throughout the evaluation process aimed to mitigate as much as possible these challenges.

The limitations of the analysis are closely related to the **lack of completed projects** which made it difficult to obtain information on results and impacts across as wide a range of projects as would have been desirable. The evaluation team mitigated this challenge in close discussion with the different IFIs by taking all completed projects and adding well advanced projects into the sample and ensuring a methodology that also looked at likely results from near-completed projects. The evaluators further indicate in the report the quality of the evidence basis for each finding.

Another major challenge was the difficulty in determining a **counterfactual** to blending in two senses: i) determining if the project would have gone ahead without blending and ii) and if so what would the project have looked like if blending had not been involved. The evaluators considered this with due respect in their analyses and reflected the solidity of argumentation in their rating of the quality of evidence.

2. Strategic relevance of blending

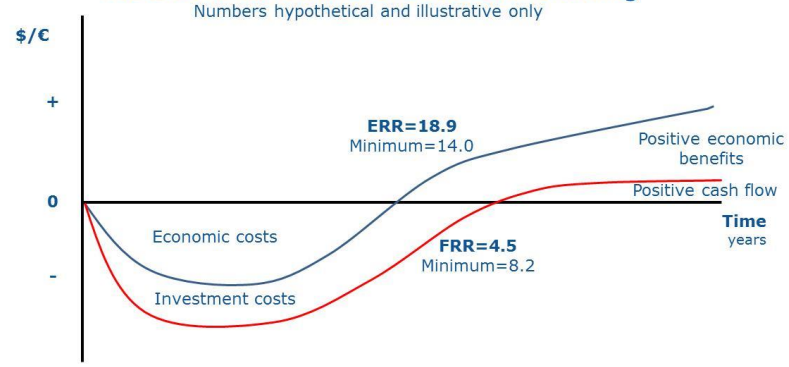
This chapter presents the analysis emerging from the evaluation concerning the strategic relevance of blending as a financial mechanism covering evaluation questions 1 to 3:

- EQ 1 Strategic relevance - to what extent is blending strategically relevant and valuable?
- EQ 2 Project alignment - to what extent has the EU pro-actively guided the pipeline of projects in order to align the portfolio with policy targets?
- EQ 3 Financial efficiency - to what extent has blending used the right level of grants?

A brief outline on the background to blending sets the stage for this chapter.

Background on blending

Blending is designed for a limited set of specific circumstances defined by project, country and sector characteristics further outlined in the table below.

When?	Blending is designed to finance projects that cannot sustain 'only-commercial' financing terms for a range of reasons, including market failures, the existence of externalities, inadequate institutional development (e.g. of financial institutions) and others. In other words, many blending projects entail the combination of disappointing financial returns but attractive economic benefits as illustrated in the figure below. **The classic conditions for successful blending** Numbers hypothetical and illustrative only  This chart shows the classic conditions for successful blending: a) where the ERR>FRR, b) the ERR>minimum and c) the FRR<a minimum.
Why?	In these cases, blending aims to achieve a range of policy objectives – either singly or in combination – which include climate/environment related targets, private sector development, 'including the excluded' (access to finance) and other pro-poor objectives, engaging in Lower and/or Middle Income Countries, and other policies relevant to all beneficiaries and stakeholders in development finance.
What?	Blending makes 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).
How?	The net impact of this 'financial engineering' mechanism is to achieve a transformation in the development project so that: ▪ Projects which are 'blocked' are 'unblocked' and actually happen; and/or ▪ Project concepts and scale change to be bigger, faster, better quality, re-designed, re-focused (e.g. on policy priorities), wider in geographic scope, located in Lower

	and /or Middle Income Countries and other changes.

2.1 Resolving specific challenges and enhancing the relevance of EU development assistance

This section relates to evaluation question 1: "to what extent is blending strategically relevant and valuable?"

Summary response:

In the broader aid landscape, blending proved strategically advantageous for the EU. Firstly, it 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-eligible low-income countries that benefited from more resources with blended finance than with grants only. Finally, blending has often offered advantages compared to alternative financing options, be they all-grant or all-loan.

Blending projects were focused on specific (policy) challenges that required grant financing to be blended into the loan package in a majority of the cases examined. 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. It could for instance ensure economically feasible projects with high environmental and social benefits go ahead even if financially not feasible, or make the market reach marginalised population groups, or cover part of the political cost of difficult reforms, etc. Blending has often been successful in resolving the specific challenge it was used for. In 25 cases out of 32 cases examined, the grant could 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.

Blending has enabled the EU to engage in countries, sectors and projects, which would be out of reach without blending ***because*** with blending:

- The EU has continued to be a significant development agent in the growing number of middle income countries;
- The EU has boosted the flow of development resources to poverty reduction and growth trust-eligible low-income countries in critical needs of development aid, including fragile states, that benefited from a blended loan instead of a grant only;
- The EU could often resolve special project-level challenges that generated additionality and improved the development impact; and
- The EU has been able to significantly support the financing of major infrastructure; a widely recognised development priority.

With blending, the EU has continued to be a significant development agent in the growing number of middle and lower-middle income countries - where otherwise, without

blending, its role would very likely have continued to diminish given the changing worldwide economic environment and donor policy trends. Since 2000[5], the number of lower income countries (LICs) - where (all-) grant financing of development projects is considered justified - dramatically reduced while the number of upper middle-income countries increased. In the meanwhile, donor policies - including EU's Agenda for Change - tended to restrict all-grant financing with more advanced developing countries (therefore including middle-income countries (MICs)). Meeting specific developmental objectives (and allocating grant aid to the countries most in need and where donors can demonstrate maximum impact) made it progressively more difficult to justify all-grant funding to the growing group of middle-income countries. The evolution of EU assistance and EU blending finance reflected these policy trends. The bulk of EU development assistance benefited lower middle-income countries (LMICs) and MICs in the period 2007-2014[6], with EU assistance to LMICs representing the largest share of total EU assistance[7]. EU assistance to LMICs more than doubled, from €1,5 billion to €3,1 billion between 2007 and 2014. Blending has been mostly allocated to lower middle-income countries, with two thirds of EU blending resources[8] (68% (€756m) if considering only single country projects or 56% (€961m) if an estimate is made to cover all projects including multi-country projects) 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[9]. The grants provided to these nine countries (€111m) represented 0.2% of total EU assistance during the period 2007-2014. In some of the neighbourhood countries visited during the evaluation, there was evidence that blending supported a transition from all-grant funding to all-loan funding (Egypt, Georgia).

Continuing to engage in MICs via blending is a way for the EU to continue 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 within 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.

With blending, the EU has boosted the flow of development resources to poverty reduction and growth trust-eligible low-income countries in critical needs of development aid, including fragile states, in comparison to a grant only scenario. Half of the countries (24 out of 46) that received blending finance during the period 2007-2014 have

5 The number of lower income countries (LICs) 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. (Source: World Bank)

6 They represented altogether 76% of total EU assistance in 2007 and 69% in 2014.

7 40% of the total EU assistance was directed to LMICs in 2007 and 47% in 2014

8 The total corresponding to the grants awarded to blending projects implemented in one country only €1,1 billion, for the grants awarded to all countries an estimate had to be made as it was not always clear how much each county obtained, The estimate was based on equal distribution between participating countries for regional projects and the total amount corresponded to $1.7billion.

9 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).

been under IMF conditions or poverty reduction and growth trust (PRGT)[10]-eligible. They received 26% (or €0,46 billion) of total EU grants provided during the same period and contracted blending loans for a total amount of €5.7 billion (or 14% of the total amounts of loans of all blending operations included in the inventory)[11]. 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[12] 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[13] that benefited from EU blending loans received a total of €3.9 billion during the period 2007-2014. As above, this figure is an approximate of the additional development finance resources these countries could access compared to a grant only. For the six LICs classified as fragile states[14] and that benefited from blending operations, the total amount of loans contracted equalled €1 billion[15].

In more than half of the cases examined, blending addressed special project-level challenges that required grants and led to improved development impact.[16] The evaluation findings justifying this statement are detailed below. They successively examine a) the extent to which blending was used to solve a challenge; b) the type of challenges tackled; c) how blending addressed the underlying reasons for the special challenges; and d) the extent to which blending was successful in resolving the specific challenge. They notably draw on the findings presented in the Country Notes that synthesise the results of data triangulation and analysis and on the 'Special Challenge' table compiled and updated by the team throughout this evaluation.

a) Was blending used to solve a specific challenge?

One should first recall that *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 the degree to which 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 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[17]. 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 to which the project really required a grant

[10] 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.

[11] The amount of loans contracted is the closest approximate of the additional development finance resources these countries benefited from in the sense that this 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.

[12] As classified by the IMF in 2007 and 2014

[13] LICs as per the 2007 WB classification

[14] As per 2007 WB classification

[15] See Volume 2 – EQ1; Indicator analysis for the tables presenting the full data set

[16] For the discussion on the pro-poor dimension of blending projects, the reader is invited to go the 'Results achieved' chapter of this volume.

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

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.

b) <u>For which type of project-challenges blending was used?</u>

The project-level challenges tackled by blending were linked to weaknesses in market mechanisms and, in some cases, in the ability of the state to provide public goods. These weaknesses have the effect of blocking action by private and public sector actors to carry out projects that were otherwise economically feasible and in their interests. Examples are given in table 2 and include the use of grant to:

- To introduce technology innovation to provide global public goods such as reduction of greenhouse gases (ENER/O.SolarPlant/MA #15). Renewable energy projects 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.
- To increase the poverty reduction and MDG impact (WASH/LVWATSAN/UG #27-28). MDG-compatible projects and projects targeting public goods 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.
- To crowd-in private sector finance in risky environments (BANK/EFSE/MC #36). Risky environments - such as MSME financing - usually do not attract private funding. These challenges required a grant to be added to the project finance package in order to achieve financial viability.

Table 2: Examples of project objectives and specific challenge for blending to solve for five of the visited blending projects[18]

Project	Overall project objective	Specific challenge for blending to solve [instrument[19]]	Justification for grant funding – Ranking: A (strong), B (moderate) or C (low)
WASH/SMWP/AM #33	To improve water supply and sanitation services	**To commercialise and modernise management of utilities** (reducing regional disparities) – [TA/IG]	Ranking: B: indicative but not conclusive. The case for the use of grants is not strong for town water supply and it is possible that loans alone could be a feasible option.
IND/SME Facility/REG #12	To finance SMEs	**To encourage financial intermediaries to enhance their lending to SMEs by risk sharing and professionalising risk management** [TA/Loan guarantee]]	Ranking A: strong justification. The grant was used to provide a guarantee which – as a risk mitigation mechanism - was decisive for the project to work
WASH/ KotaykSW/ AM #13	To improve management and disposal of waste	**To encourage EU standards for waste management** [IG]	Ranking B: indicative but not conclusive. A pure loan would not have worked as the solid management sector is far from being financially viable. Economically and environmentally there is a good case for early action

[18] See also Volume 2 - EQ1 - Annex 1 Table on Special Challenges covering the 32 visited projects

[19] [TA: technical assistance ; IG: investment grant ; IRS: investment rate subsidy]

			which could merit the grant.

Project	Overall project objective	Specific challenge for blending to solve [instrument[20]]	Justification for grant funding – Ranking: A (strong), B (moderate) or C (low)
ENER/O.SolarPlant/MA #15	To generate renewable energy	**To overcome a tariff distortion** (by reducing the price of a KW of solar power to that of a KW of thermal power) – [IG]	Ranking A: strong justification. Equity financing could only be financed through a grant. The promoter was of the opinion that a grant of this size (€30 million) would not have been available through other sources.
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]	Ranking A: strong justification. The grant (€29M) represented 4.7% IRS which was necessary for compliance with the HIPC requirement of 35% degree of conditionality

c) How did blending address the underlying reasons for the special challenges?

Blending demonstrated that it could respond in various ways to the underlying reasons related to the special challenges. The different blending instruments allowed for a varied response including technical assistance, technology transfer, capacity development, policy and institutional reforms, 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 table below:

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 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
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

[20] [TA: technical assistance ; IG: investment grant ; IRS: investment rate subsidy]

Area	Using the grant to …	Examples
		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 recently started 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 (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 - ENER/O.SolarPlant/MA #15) and the Egypt wind farm (ENER/Wind Farm/EG #32)

Source: ADE on the basis of the review of project documents and interviews with representatives from the IFIs and the EU in headquarters and in the field, as well as with beneficiaries for the 32 projects visited in the field

d) Was blending successful in resolving the specific challenge?

Blending was often successful in resolving the specific challenge it was used for and thus made it meaningful for the project to go ahead: this was the case for 78% of the 32 projects visited in the field. In other words, the grant made a difference and assisted in the transition to normal market mechanisms and/or enabled the public sector to more effectively provide for public goods. When blending succeeded in addressing specific challenges, a grant element typically helped in the following ways:

- Co-financing the rehabilitation and/or extension of public infrastructure, including basic ones: for instance the extension and development of the Port of Pointe Noire infrastructure (TRANS/PAPN/CG #41-42) or the rehabilitation of the transnational backbone electric network infrastructure in Benin and Togo (Benin-Togo Power Rehabilitation project LCO component)
- Modernising the management of public utilities, notably in the water and sanitation sector: for instance the IWSP project in Egypt (WASH/IWSP/EG #14) has filled a gap in improving service provision and institutional performance in preparation for gradual move towards a financially sustainable level of tariff;
- Realising key pre-investment studies, for instance for the development of the Western African energy market (ENER/WAPP/REG #2) or for the improvement of water and Sanitation Systems in Chisinau (WASH/IWSS/MD #11);
- Overcoming a tariff issue, for instance for Noor I, by reducing by 30% the electricity production costs resulting from the solar technology the grant unblocked a massive renewable energy project (ENER/O.SolarPlant/MA #15);
- Mobilising 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); and/or

- Facilitating public policy implementation: in Colombia, the grant is being used to finance the pilot project of Lake Tota, which has enabled the implementation of public policies at local level that remained rather poor until now (WASH/IWRM/CO #20).

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 (TRANS/Corridor/MZ #26)).

The additionality of the blending grant and the requirement to focus on resolving a specific challenge had not been explicitly emphasized until recently in the new application form[21]. The 2016 version emphasizes the 'additionality of the EU contribution' and the Guidelines on completing the application form detail the different types of expected additionality (economic, financial, social, project scale, project timing, project quality and standards, innovation, sustainability, environment, and others). In the 15 project fiches[22] examined in detail as far as selection criteria are concerned, detailed information on the blocking factor the grant had to resolve was provided in only one third of the cases but the specific project design features that related to blocking factors were often well detailed. For instance, the grant was justified by the high expected development impact of the project (ENER/C.Intercon/NA-ZM #1) or to incentivise partner financial intermediaries to engage with the MSME segment (IND/SME Facility/REG #12).

Blending has enabled the EU to finance major infrastructure at scale. Firstly, it allowed the EU to access the resources to finance large-scale infrastructure projects. Secondly, blending was often used in situations where a loan-only option was not feasible.

Without blending loans with grants, the EU would not have had the resources to finance the scale of infrastructure that it was able to with blending since these projects would have absorbed a disproportionate share of the EU development assistance. Through blending the EU supported at scale the socio-economic development of beneficiary countries in the broad field of infrastructure – notably in energy (especially renewable energy and energy efficiency), transport, and water and sanitation. As countries grow and become less poor, infrastructure improvements progressively take centre stage.[23] It is estimated that the infrastructure investment requirements in the developing world are around US$ 1 trillion p.a. [24] covering energy, transport, and water/sanitation. This hugely increases the number and size of development projects, as well as the external financing requirements.[25] With the €1.7 billion provided as grants for blending (2007-2013), economic development projects worth almost €40 billion have been implemented.

Moreover, there was often insufficient financial capacity to resolve the challenges with all-loan financing on fully commercial conditions. This finding is based on the assessment of the special

[21] While the application form evolved over time, it became comprehensive only recently since the work of the EU platform for Blending in External Cooperation (EUBEC platform) and the major changes introduced in the August 2014 application form, further modified in January 2016.

[22] They concern blending projects approved between 2008 and 2013.

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

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

[25] This focus on economic infrastructure underpins a renewed global focus on this type of financing, including for example initiatives currently underway in Europe (the EU 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.

challenge table [26] which includes a column *'loan-only option possible?'* presenting 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. We have used a ranking system to evidence whether the case for a grant was strong (A), moderate (B) or low (C). In 24 out of 32 cases examined, blending was directed at situations where a loan-only option would have been impossible or highly sub-optimal. In these cases it is clear that non-concessional loan would not have been possible due to blocking or other factors and blending:

- Met the IMF concessionality requirement where required (i.e. in countries which have had to comply with IMF requirements such as Uganda (WASH/LVWATSAN/UG #27-28) and others that have adopted a prudent approach to follow the guidelines (e.g. Egypt; Armenia); or
- Compensated for the low borrowing capacity of the beneficiary country or borrower (TRANS/RoadRehab/MD #29); and/or
- Compensated for the insufficient financial return of specific loss-making or innovative activities that have innovative public good features (e.g. rural electric sub-stations (ENER /PowerTrans/EG #31)); and/or
- Promoted the development of unstructured and unattractive market segments having the potential for positive externalities (e.g. energy efficiency and renewable energy in Morocco (ENER/SEFF/MA-JO #35)). In those cases, key informants met considered that a loan-only option would not have been possible.

2.2 Shaping the blending pipeline

This section relates to evaluation question 2: "to what extent has the EU pro-actively guided the pipeline of projects in order to align the portfolio with policy targets?"

Summary response: A comprehensive guidance framework has guided the blending pipeline but it was developed late in the period 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 but documented evidence is scarce. 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 as well as with EU country/regional strategies.

With blending, the EU could jointly support four broad development policy objectives, often in alignment with national/regional priorities. The projects were also often part of the EU priorities as defined in EU country/regional strategies.

Donors and IFIs have reacted to the changing worldwide economic environment mentioned earlier and re-positioned their support using blending by: i) adapting their mandates and strategies towards and increased emphasis, especially for IFIs, on contributions to achieving MDGs, climate-compatible development and other broader development aims; ii) ensuring they pass greater public scrutiny with respect to use of public funds; and iii) promoting partnership operations with others, both between peers (e.g. the Mutual Reliance Initiative between EIB,

[26] See in Volume 2 Annex B2: (i) Annex 1 of EQ1 and (ii) Table 9 in EQ1 which illustrates the pros of blending vs all-loan or all-grant financing

KfW and AFD) and between lenders and grant-providers (e.g. between IFIs and the EU). Moreover, IFIs representatives met indicated at meetings that blending gave them the opportunity to diversify their portfolios and operate in more countries and more sectors than they could without blending. More precisely, blending grants made it possible to add specific MDG-related components to projects (e.g. rural electrification for the Caprivi Interconnector - ENER/C.Intercon/NA-ZM #1) which otherwise could not sustain these. Furthermore, the blending governance structure has increasingly favoured exchange of expertise on all aspects of blending between the EU (Commission, EEAS, EU Member States) and the IFIs within the Facilities and the EUBEC platform. With blending projects, European IFIs and the EU supported four broad policy objectives: infrastructure support for three main sectors (energy, transport, water & sanitation) to support economic growth; climate related objectives; PSD and access to finance – by banking the un-banked and boosting financial resources for special schemes e.g. energy efficiency –; and, selectively, some of the MDGs. The portfolio of blending projects examined in depth has generally well reflected these high-level policy objectives set for all facilities[27].

The blending projects visited in the field have been overall well aligned or largely aligned with the priority with the priority policy objectives of the beneficiary countries. 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 major cases of misalignment. Additionally, these projects have 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). One explanatory factor lies in the fact that EU priority areas are wide and easily encompass a diverse range of sectors. In some cases (7 out of 32 cases or 22%), blending projects only indirectly fitted with EU priority policy objectives (e.g. Armenia). This mostly lies in the fact that EU priority areas are wide and easily encompass a diverse range of sectors.

The EU has developed an extensive blending guidance framework for its partners towards the end of the evaluation period. There is guidance at facility level that has recently been amplified at operational levels with the issuance of blending guidelines, a new application form and the further roll-out of blending training sessions. While the facility documentation and guidance framework was complete from the start of each facility's launch, other key elements of

[27] These global policy objectives are 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

the guidance framework came significantly after blending was launched, especially due to the novelty of the mechanism, its complexity and the scarce human resources dedicated to it. 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. The application and use of the guidance has been constrained by the fact that:

- 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.
- The application form became comprehensive only since August 2014.
- The training seminars, which progressively developed from 2012-2013, show a limited outreach so far: approximately 400-500 Head Quarter and Delegation staff were trained and there has been little training in partner IFIs.

On the other hand the delay in the guidance framework has ensured that on the ground experience has been incorporated into the guidelines. The close review of the application forms of 15 out of the 32 projects visited by the team shows that in most cases examined the information provided across the selection criteria in the application forms has often not been complete enough, 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 Economic Rate of Return/Financial Rate of Return. Similarly, 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, and they do not mention the Public Investment Programmes, Multi-annual Fiscal Frameworks or Debt Sustainability Frameworks. The post 2014 application forms guided by the new framework are much more comprehensive with 36 data fields requiring information about the country, the sector, the project, and the grant, and 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.

The project dialogue associated with blending finance and the blending facilities have sometimes modified project designs and added specialised components to make projects more (EU) policy compliant, but the link with EU delegations was weak, at least in the early period. 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. These changes were typically not documented, at least in the documentation made available to the team[28]. The main driver for project design changes during the identification and preparation phases has been the dialogue between the IFIs and the national partners. 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 hydroelectricity 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). Furthermore, EU blending facilities have often exercised quality control and ensured compliance with selection criteria and policy objectives, especially through technical meetings – now called Technical Assessment Meetings following the 2014 EUBEC blending governance changes. The project design changes emerging from these meetings are rarely documented, at least in the documentation that was made available to the team. From the available information for four projects of the sample, these meetings emphasized specific project features that were key

[28] 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 were stored in confidential documentation the team could not have access to.

for the projects to be eligible for a blending grant such as the potential project impact or the value added of the grant. 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. In the early years before an EU delegation endorsement was compulsory there were many cases where the blending projects were developed with little or no involvement of the EU delegation; an example is Pointe Noire in Congo-Brazzaville (TRANS/PAPN/CG #41-42).

2.3 Financial efficiency

This section relates to evaluation question 3: "to what extent has blending used the right level of grants?"

Summary response: 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. Finally, blending mechanically offered the EU opportunities to have wider positive effects on the EU potential 'footprint' in global development assistance.

Blending has offered the EU opportunities to increase its potential sphere of influence for promoting its policy priorities in the global development arena ***because:***

- On average, EU grants were associated with 20 times more funds coming from other financiers – principally key European financial institutions partners but also multilateral donors, public and private sector investors;
- Blending grants have often either caused other funds to be mobilised, enabled previously earmarked funds to be formally approved and committed, and/or directed funding to policy-compliant objectives; and
- EU grants being associated with substantial additional project finance have mechanically offered -through the investment leverage ratio- opportunities to increase the EU's potential 'sphere of influence' on the global development stage.

The average investment leverage ratio for EU grants was 20. The additional funds came principally from key European financial institutions partners in the form of loans but also from multilateral lending agencies, public and private sector investors. As an arithmetic ratio (with no implication for causality), blending had an average investment leverage ratio between total financing and the EU grant of 23 during the period 2007-2014. Digging into the average leverage ratio across the different types of grants under the sample of 40 projects (see table below), one can notice that the averages are not remarkably different for three of the grant types: investment grant, investment rate subsidy and risk capital. 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 earlier; 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.

Table 4: 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 approved during the period 2007-2014

Blending grants have often either caused other funds to be mobilised, enabled already earmarked funds to be used and/or directed funding to policy-compliant objectives. Beyond the arithmetic leverage ratio which does not demonstrate any causality, project-level evaluation shows that the actual effect of the EU grant has usually been one or several of three situations: a) either mobilising additional funding, and/or b) enabling previously earmarked financing to be formally committed to the project, and/or c) directing funding to EU policy-compliant objectives (e.g. social, climate change, etc.). 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 had at least one of the a); b); and/or c) effects (see table below). 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. In a minority of 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 5: 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 cases)	• 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
b) Directed money 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) • WASH/SMWP/AM #21: the project focused on rural and secondary

The EU grant has …	Illustrative examples
cases)	towns thus contributing to the reduction of regional disparities
c) Enabled previously earmarked financing to be formally approved and committed to the project in 28% of the cases (9/32 cases)	• 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 cases)	• 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).

Source: ADE on the basis of the review of project documents and interviews with representatives from the IFIs and the EU in headquarters and in the field, as well as with beneficiaries for the 32 projects visited in the field

EU grants being associated with substantial additional project finance have mechanically offered strong opportunities to increase the EU's potential *'sphere of influence'* on the global development stage. The share of the EU budget[29] in total ODA was 5% during the period 2007-2014, placing the EU as the second largest ODA provider behind the IDA of the World Bank (whose ODA is almost two times larger than the EU one). Therefore the EU has had influence on the use of, and objectives achieved by, 5% of global ODA. Through blending, and the associated arithmetic leverage, the EU was also involved with, and got a potential *'seat at the table'* of lead donors, of a further 4% of development finance. Taking into account both the total EU budget ODA and the EU blending leverage, one can estimate that the EU 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 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 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. This should put the EU in a position to argue for the achievement of specific policy objectives in those projects where it is not in the lead, and thereby enhances its significance, role and influence as a development agency.

[29] 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.

3. Value Added of Blending

This chapter presents the analysis emerging from the evaluation concerning the strategic relevance of blending as a financial mechanism covering evaluation questions 4 to 8:

- EQ4 Instruments -To what extent has the appropriate blending instrument or mix of instruments been selected?
- EQ5 - Policy Reform- To what extent have blended projects contributed to leverage policy reforms in beneficiary countries?
- EQ6 Project quality - To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?
- EQ7 Finance Barriers- To what extent has blending contributed to improving access to finance for MSMEs?
- EQ8 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?

A brief summary below on the value added that blending was expected to deliver sets the stage for this chapter.

Summary of value added expected from blending

Blending is expected to add value to the EU's grant based development cooperation and also to bring added value over operations that are purely loan financed. Added value is seen as being provided in a number of ways relating to: leveraging policy reforms, creating higher quality projects, unlocking finance and improving coordination. These factors bring together the topics under evaluation questions 5, 6, 7, and 8:

- Leveraging policy reforms - Where the EU is involved in policy reforms through its grant based programmes of development cooperation, it is argued that the policy reform agenda can be advanced through blending. Blending, it is claimed, through large scale infrastructure and investments can advance policy reforms if those investments are coordinated with the policy reform agenda and serve to demonstrate the viability and benefits of the reforms. Grants are often necessary where the recipient country is unable or reluctant to borrow funds for furthering policy reform, either because such reforms were unpopular or considered untested. (evaluation question 5)
- Enhancing project quality – The performance of large-scale infrastructure projects supported through development cooperation has often been disappointing. A combination of over-optimistic assumptions regarding feasibility, usage, economic rate of return, social benefits, operation and maintenance as well as ownership and institutional, financial and technical capacities led to unfulfilled commitments. This in turn led to under-utilisation of project assets, unaffordability, maintenance neglect, operational inefficiency, premature deterioration and loss of serviceability. Blending it is argued can add to the quality of loan and grant projects through ensuring greater rigour and due diligence, thus addressing some of the issues noted above (evaluation question 6).
- Reducing financial barriers - Micro, small and medium size enterprises (MSMEs) are the engine of growth in most countries. But lending to MSMEs is risky and 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 reduce market barriers, open up and incentivise entrance to new or otherwise risky markets for private sector actors through developing capacities in financial institutions to serve MSMEs (e.g. implementation of specific strategies and products), by making new financing available to financial institutions (both through blending operations and through reducing market

imperfections), and by strengthening MSMEs' capacities to deal with the financial market. (evaluation question 7)

- Improving coordination, reducing transaction costs and increasing visibility - In promoting joint channeling of aid resources, blending mechanisms are seen as a way to contribute to the implementation of the aid effectiveness agenda. Blending it is argued promotes cooperation between aid actors, contributes to lower aid transaction costs and due to the scale of operations leads high visibility of EU aid (evaluation question 8).

To achieve the added value in terms of policy leverage, enhanced project quality, reduction of financial barriers and improved coordination, reduced transaction costs and greater visibility, the blending facilities make use of different instruments for channelling the grants. The instruments are: provision of technical assistance; capital subsidy (either interest rate subsidy or investment grant) and risk sharing subsidies (either in the form of loan guarantees or provision of risk capital). The evaluation seeks to discover if the right instrument or mix of instruments were used and how well suited they were and reflect on whether the range of instruments was sufficient to add value to the extent expected and deal with the special challenges that blending projects were meant to address (evaluation question 4).

3.1 Leveraging policy reforms

This section relates to Evaluation question 5: "to what extent have blended projects contributed to leverage policy in beneficiary countries?"

Summary response: Blending actively contributed to ongoing reforms in many of the countries and sectors that it operated in through: policy level discussion; TA and advisory services and; through complementing reforms with physical investments. There were some cases where the combination of budget support and blending was complementary and proved a powerful factor of change. The role of blending was mainly to support ongoing rather than trigger major policy reforms. Although blending contributed, it did not always fully exploit opportunities to advance policy reforms. Blending projects were primarily aimed at physical investment and improving access to finance and did not always explicitly include policy reform in the objectives, expected outcomes and result reporting. Where blending contributed strongly it was commonly associated with one or more of the following factors: the project originated from a wider reform agenda; was closely linked to an EU focal sector; benefitted from and contributed to the implementation of EU partnership and association agreements and/or; was led by an IFI that had offices in the country concerned and had a history of engagement in the sector.

With many partner countries undergoing reforms, the policy context for blending has been positive and has provided opportunities for advancing policy reforms. Blending took place in a context where many countries were undergoing significant reforms especially within the energy, transport and water sectors. The reforms in these sectors which often originated in the 1990s aimed at adopting a sector wider approach, improving the management and efficiency of the sector and addressing long term sustainability concerns which had in many countries stalled investment (see Box 1). In the neighbourhood region, the NIF has been in a position to support the wider transition to the market economy and to the adoption of European values, standards and systems. By supporting and advancing the reforms, not only does blending has the opportunity to provide crucial support to wider sustainability of the sector but the performance of blending investments themselves should be better secured e.g. ensuring sufficient tariff to carry out operation and maintenance.

Box 1 - Energy, transport and water reforms

Energy - 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 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.

Transport - 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).

Water - Reforms in the water sector (Egypt, Morocco, 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. 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 have constituted major impediments to meet the objectives set in the IWRM. In Morocco, progress is observed in the implementation of the 'Plan national d'assainissement ', which is a key component of the 2009 National Water Strategy.

Although blending contributed, it did not always fully exploit opportunities to advance policy reforms. Factors that affected how much blending contributed to leveraging policy reforms included:

- The extent to which blending projects included policy reform in the objectives, expected outcomes and activities.
- The extent to which the project originated from a wider reform agenda or was linked to EU, WB or other reform efforts supported by major actors
- The extent to which blending projects in a particular country supported projects that were in a EU focal sector and could interact with an already established policy dialogue platform and /or the leverage provided by budget support
- The presence of wider EU partnership and association agreements
- The presence of IFI offices in the country concerned

Blending projects that were infrastructure focussed and which did not link up with the policy reforms tended not to trigger policy reforms. An example is the Porte Noire in Congo-Brazzaville (TRANS/PAPN/CG #41-42) which although successful in constructing a new port did not contribute to the wider issues of sustainability and was not part of wider port master plan. In this particular case the context for policy reform was weak, donors had limited influence and the project was operated in isolation to the EUD (in the period before the EUD had an official endorsement role). As noted elsewhere, across the 46 projects examined and also the additional projects considered during field visits, there were no clear examples found of blending projects that were in contradiction to partner government and EU policy. In discussion with delegations and national partners a few exceptions, outside of the sample, were found especially among projects started during the earlier phases of blending where blending projects did not

support EU and partner strategies for cost recovery. Examples are reported from early water and sanitation projects in Ukraine (where the project did not sufficiently take into account the need for action on tariff reform) and from proposed energy efficiency (street lighting) projects in Armenia (where a national strategy of encouraging investment to be paid from energy savings was reportedly not being supported by the project).

The degree to which blending projects explicitly factored policy reforms into their objectives varied, however most projects especially those approved in later years, tended to have a more explicit element of policy reform built into their design. 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.

Within NIF, the projects especially but not only those led by EBRD, identified explicit transition impacts and integrated these into objectives, expected outcomes and activities. The Moldova road rehabilitation project (TRANS/RoadRehab/MD #29) is a typical example where the project objective is stated as: *"the improvement of Moldova's national road infrastructure through ….support to reforms for road sector financing and institutional strengthening aimed at improving capacity …to manage and maintain the road network*". The field visit confirmed that this project was instrumental in advancing the intended reforms by building capacity and making the project conditional on adoption of the road reform strategy and reformed road sector financing. Another case is the Ukrenergo corporate sustainability project (ENER/Ukrenergo/UA #8) in Ukraine where project apart from financing considerable electricity transmission lines also states as its objective "*Full corporatisation of Ukrenergo…legally and commercially corporatize the national transmission system operator….implement corporate sustainability strategy".*

Outside the transition agenda of NIF, it is rarer to see blending projects explicitly integrate policy reform into the objectives and results matrix, although most projects and especially those approved in later years, tended to have a more explicit element of reform built into their design. This is especially the case where the projects are associated with one of the positive factors mentioned earlier (linked to reforms, sharing a focal sector with the EU or within an EU partnership or association agreement).

Blending projects were more successful in leveraging reforms where they were linked to EU, WB or other reform efforts. Blending projects focus on physical investments. And, to a lesser but gradually increasing degree, on improving access to finance through providing lines of credit, often with interest rate or risk shielding elements. Where leverage on reforms is evident it is usually where the project is linked to the reform support of others – especially the EU. An example is the Integrated Water and Sanitation Programme in Egypt (WASH/IWSP/EG #14) where it is stated in the project documentation that "*In line with the EU water sector reform programme, the IWSP will support the ongoing reform process of the Egyptian government, focussing on sanitation and will develop the capacity of the operating companies".* The field visit, supported by a number of ROM and external reviews, noted that although the advance in reforms has been slow the project has been a key contributor to supporting the decentralisation of water and sanitation services. A later, USD 0.5 billion World Bank "performance for results" project made use of the innovations and reform pathways created by the IWSP (e.g. adopting similar fiscal decentralisation to governorate based utilities). Another example is the project to provide environmental lines of credit for engaging banks in energy transition projects in East Africa (ENER/Env.Credit lines/REG #43) where the project provided support to the national and regional policy of pursuing small scale renewable and energy efficiency alternatives by improving access to finance for this type of

investment. The field visit also found evidence that the project had contributed to the adoption of a standard power purchase agreement through its support to private sector borrowers in their correspondence and dialogue with the ministry of energy.

In the few cases where blending projects coincided with EU support to a focal sector, the contribution to reforms has often (but not always) been impressive. Where blending projects coincided with EU support to a focal sector (3 countries visited out of the 12: Egypt, Colombia and Morocco) there was an already established policy agenda and dialogue platform available in the Mediterranean area which made it much more likely that relevant reform issues to which the blending projects contributed were raised and pursued. In the earlier period before the EU delegations had a formal endorsement role this was not always enough, but in the current set up, discussion with the delegations indicated, that there is a more explicit and automatic consideration of the potential contribution to policy reform that could be gained through a blending project.

In Egypt the blending projects within energy (ENER/PowerTrans/EG #31 and ENER/Wind Farm/EG #32) and water (WASH/IWSP/EG #14) coincided with two focal sectors of EU support where budget support was provided (before the 2011 revolution). In both energy and water sectors the blending projects have supported the achievement of policy objectives and reforms of the EU budget support operations and the project support that was provided after budget support was stopped. The field visits, supported by independent reviews, noted that blending has contributed to reforms in the energy and water sectors which demonstrated that targets for renewable energy were feasible and the water projects have demonstrated that a decentralised implementation was feasible. In both cases this has led to stronger national commitment to reform goals. It also paved the way in the renewable energy sector for a gradual transition from pure grants, to blending, to commercially based financing. The benefits were mutual because the EU budget support itself 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. A similar effect is evident in Morocco where the sanitation project (WASH/PNA-ONEP/MA #30) supported national reforms also supported by the EU.

It should be noted that some exceptions have occurred where as in Mozambique, blending projects, in this case of the transport sector have not been successful at contributing to policy reforms even though transport was a EU focal sector at the time. It should be noted that the projects were aligned with national policies. Discussion with the EUD and others led to the conclusion that there is little evidence of any of the individual blending projects (TRANS/Corridor/MZ #26 or TRANS/Airport/MZ #25) contributing to policy reform – the nearest approach appears to be consultancy services preparing an operations and maintenance plan for the completed infrastructure in Maputo airport. The airport project although in the same focal sector was not linked to the reforms being supported by the EU. The Beira corridor project could potentially have led to policy leverage but for various reasons failed in its attempt to commercialise the rail link.

Whilst alignment with EU focal sectors can bring advantages it should also be borne in mind that exclusively aligning blending with such sectors could bring about distortion and potentially create orphan sectors.

The presence of wider EU partnership and association agreements has often (but not always) led to significant contribution to policy reforms. These reforms processes, initiated by the partner countries, were anchored into the EU bilateral cooperation agreements for

Southern Mediterranean and Eastern European countries. Southern Mediterranean and Eastern European countries are engaged into a continuous process of approximation and harmonisation with EU standards with the signature of PCAs, Association Agreements 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. Blending projects in these regions were channelled through the NIF.

The EU partnership and association agreements provide a readymade reform agenda which blending projects can both support and benefit from. The extent to which blending projects have taken advantage of this mutual benefit increased markedly over the last few years and especially since the EUDs got a formal endorsement role. In Georgia and Armenia for example the Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points (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) is in direct support of the EU-Armenia Partnership and Cooperation Agreement that aims to increase cross border trade and improve security, illegal migration and the efficiency of anti-narcotics operations.

The EU association process started a government owned reform process that slowed but not entirely stalled when the country chose not to pursue the association agreement. The field visit found that blending by supporting nationally important infrastructure helped to boost economic performance beyond what the debt carrying capacity can sustain, it also sent a message to an increasingly vulnerable Armenia that they are not alone was as well as providing the means and an additional incentive to pursue an ambitious reform package agreed during the association process.

Where IFIs have had in-country offices and have supported the same sector over a long period the contribution to policy reforms has been effective. Most of the European IFIs eligible for blending projects do not have the same resources and mandate of the World Bank and some of the regional development banks to take a leading role in policy reform – although within certain sectors and countries the European IFIs do take the policy lead. However, where the European IFIs have had in-country offices for a number of years and have focussed on a few sectors of concentration, their ability to mobilise blending projects to create policy leverage has been considerable.

An example is KfW which has been active in the water and sanitation sector in Uganda, also in the role as a lead donor, for many years. The familiarity and insight into the sector as well as the confidence built up in the partnership between KfW and national actors enabled KfW to support ambitious policy reform through a project aimed at improving the sanitation of Kampala and the regional water quality of Lake Victoria (WASH/LVWATSAN/UG #27-28). The policy reforms supported and leveraged by the blending project aimed at implementing an integrated water resources management approach, consolidating the commercialisation of the sector and at the same time ensuring pro-poor measures in slum areas. This was achieved even where the sector is not one of the EU focal sectors. Another example is the EBRD support to municipal and utility level investments in the neighbourhood region. EBRD has an established office in Moldova and has carried out 110 projects to date with a cumulative investment of more than Euro 1 billion. A track record of investments in the municipal environmental and transport sectors of Moldova have enabled EBRD to develop insight and expertise and gain the confidence of national partners and put it in a position to make use of blending to leverage difficult and far-reaching policy reforms. Examples of this are the Chisinau public transport project (TRANS/PublicTrans/MD #10) where a new public transport strategy is being developed based on experience of innovations such as electronic ticketing and traffic control systems introduced

as policy measures in the Chisinau project. In another example, EIBs' and AFD's in-house expertise in regional infrastructure and familiarity with the energy issues affecting West Africa are explanatory factors behind the series of interventions that have had policy reform effects. The revised West Africa Power Pooling master plan (supported by blending TA) is provides a long-term vision on a regional electricity network in West-Africa. It is 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 and others

By contrast, where projects are scattered and not linked to a longer term track record of lending, there is a greater danger of policy reform opportunities not being exploited. The example in Congo Brazzaville and the transport sector in Mozambique bear this out. However, there are also examples where reliance on good consultants can create policy reform results even where there is not a long track record, as is shown in the AFD led project for Geothermal energy in Dominica (ENER/Geothermal /DM #40).

Blending technical assistance has been at the forefront of supporting policy reform and building capacity to implement the reforms but has not triggered policy reforms. Blending TA often led to the production of feasibility studies presenting a detailed sector-level assessment, for example the tariff and other study provided through the Chisinau Water project in Moldova (WASH/IWSS/MD #11), or studies assessing the current situation of the identified beneficiary company and the provision of capacity development in the process of commercialising the corporation (ENER/Ukrenergo/UA #8). Capacity was developed in the Yerevan Metro Company to oversee expansion plans and ensure higher levels of energy efficiency and labour productivity (TRANS/MetroRehab/AM #9). Project level advisory/capacity building activities were more effective in supporting policy reforms where they were part of a wider and longer-term package of support to sector reforms.

In some cases, blending operations also supported the preparation of Master Plans, including a list of priority investment projects to be financed as in the case of the West African Power Pooling master plan (ENER/WAPP/REG #2) and the Namibian transport master plan (TRANS/MasterPlan/NA-REG #5). In some cases, such as the Namibian transport master plans, the TA did not lead to the development of later loan projects that involved blending. In others such as the West African Power Pooling master plan, a basis was laid for developing a robust and well considered and prioritised project pipeline. It should not necessarily be considered as a failure if blending projects do not directly arise from the master plan as there is evidence in the example of Namibia that the master plan has been helpful to the countries decision makers and has guided subsequent investment (even if not involving blending).

3.2 Enhancing project quality

This section relates to evaluation question 6: "to what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?"

Summary response: 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 and international regulations and legislation. 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.

Most blending infrastructure projects are high quality, robust and so far functioning well – however the longer term sustainability is in some cases still in doubt. The complexity, scale and nature of the projects has meant that it has not always been possible to avoid delays and cost overruns but for the vast majority of projects these have been held within normal project limits. Factors that have influenced the quality of the projects include:

- High quality feasibility studies leading to the selection of well-conceived projects
- Overly optimistic assumptions on longer term sustainability
- State of the art project preparation and design
- Close supervision and monitoring
- Preparation of operation and maintenance plans

There was no evidence that projects in any particular sector systematically did better than others. Each sector has specific opportunities and challenges but there was not strong evidence that blending was more suited to one that another.

High quality feasibility studies have led to the selection of well-conceived projects - The IFIs commissioned highly qualified international consultants to undertake the feasibility studies, in many (but not all) cases using the TA grant instrument provided by blending. 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. The feasibility studies, particularly for the large and complex projects, were undertaken by renowned international companies and completed to highly professional standards. Some exceptions were found, however, such as in Columbia it was noted that the feasibility study for the renovation of the market in Monteria did not include an analysis of the economic and social effects or of the costs and financing possibilities of the renovation of the market (Multi/SustDev/CO #19)

Although the feasibility studies were in general well prepared, ensured that the projects supported were well conceived and took account of the best available alternatives, risk analysis and targeting poverty reducing opportunities were systematically weak:

- Risk analysis - Although feasibility and other studies usually identified risks the process was sometimes superficial with limited identification of mitigation measures.
- Pro-poor targeting – the studies rarely addressed poverty alleviation in detail and for the most part relied on an implicit 'trickle down' of benefits of (mainly) economic development goals – examples include the power utility upgrade programme in Guyana (ENER/PowerUU/GY #22) which only addressed poverty in very general terms. Some examples of where poverty targeting was addressed at feasibility level was the Caprivi electricity interconnector project (ENER/C.Intercon/NA-ZM #1), the Benin–Togo power rehabilitation project where poor unserved areas were given priority for improved access to electricity and the project to promote climate change adaptation and integrated water resources management in Latin America WASH/WASH in LA/REG #38).

Overly optimistic assumptions on longer term sustainability have **threatened project quality**– the single most important factor that threatens the longer term sustainability of the projects is the overly optimistic assumptions made on the future demand and usage of the facilities, tariff levels (affordability and especially the political willingness to raise tariffs), the scale of the economic and social benefits, the governance environment and the institutional, financial and technical capacities of the operating entities. Some of these factors relate to the weak risk analysis noted earlier. Where blending projects supporting provision or upgrading of infrastructure calculated expected economic benefits (including economic and financial rates of return), the assumptions upon which results and outcomes rested were often unduly optimistic as was shown in the case of the Caprivi electricity connector where the readiness of the Zambian authorities to ensure working transmission lines was overestimated (ENER/C.Intercon/NA-ZM #1). In a number of cases, the assumptions made were 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. In general, the country level risks in the neighbourhood region under NIF were less than for the ITF which focussed on the less developed sub-Saharan African countries. Within NIF and LAIF, the assumptions tended to be more robust because the countries were more highly developed and had a stronger technical workforce.

State of the art project preparation and design has led to high project quality – The success and quality of the completed and nearly completed projects examined is in part explained by the high quality of project preparation and design[30] provided through blending grants for TA (all but 46 of the 213 blending projects involved TA and in many of the others, TA was provided through other sources such as donor trust funds or the IFI's own sources). All the projects scrutinised have been compliant with national regulations and legislation in terms of design standards, specifications, procurement, contract management, Quality Assurance/Quality Control, environmental and social impact management. Where national norms have been below international standards, international standards have been adopted – examples include: the electricity transmission project in Egypt where new standards on public consultation were used (ENER/PowerTrans/EG #31); the geothermal project in Dominica where state of the art technology was used (ENER/Geothermal/DM #40) and the Dhaka Urban transport project where new road and pedestrian safety improvements were introduced (MULTI/UrbanTrans/BD #23). There has been some adoption of innovative structures and technology (avoiding piloting of speculative untested technology) and serviceability has not been compromised (although some resultant delays have been recorded).

Close supervision and performance monitoring has led to high project quality – A further explanatory factor for the generally well-functioning projects despite their complexity, scale and often difficult operating environments is that the IFIs arranged close on-site supervision during the implementation phase. Performance monitoring was in place for all projects scrutinized and generally of good quality. This finding is supported by a survey of EU delegations involved in blending projects where over 80% of the delegations responding reported that the blending projects were "correctly or very well supervised". There are however, examples of performance monitoring not identifying developing problems as was the case of in the Beira Corridor project (TRANS/Corridor/MZ #26) where it was noted that there was a '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' (World Bank, Implementation, Completion and Results Report for the Beira Railway Project 2012).

[30] Although most blending projects were well designed, there are cases where project implementation has suffered due to design shortcomings (see section 4.3)

Preparation of operation and maintenance plans when combined with follow up support have led to robust projects - Another factor behind the satisfactory operation and maintenance observed in completed projects is the presence of operation and maintenance plans and manuals. These tools have been followed up with training and capacity development in most but not all cases. In the case of the El Zayt Wind Farm in Egypt (ENER/Wind Farm/EG #32), a five-year operation contract was made with an external company that would take operational responsibility and train manage local staff. Other examples of good operation and maintenance practice supported by the blending projects include: the road rehabilitation project in Moldova (TRANS/RoadRehab/MD #29); the submarine cable in the Seychelles (COM/SubCable/SC-TZ #6), the solar energy plan in Morocco (ENER/O.SolarPlant/MA #15) and the rural road programme in El Salvador (TRANS/RuralRoad/SV #18). In Congo-Brazzaville by contrast although the reports identified challenges in the capacity of the port authorities to maintain and operate the new facilities, no capacity development or relevant actions have been taken to overcome the challenges. In Columbia it was noted that although a budget estimation has been made, the budgets themselves have yet not been set aside for continuing the activities of the IWRM projects for Lake Tota (WASH/IWRM/CO #20) and given the past constraints of the operating entity it seems the availability of the budgets is in doubt.

The generally high quality of project preparation and execution is due to the IFI standards rather than the presence of blending grants. The IFIs have a strict adherence to standards of project preparation and execution. Without the blending grants, the IFIs themselves report that they would not compromise on quality or accept lower standards. In the absence of blending grants or other sources of finance the options are that: i) the project does not ahead or ii) where there are no DSF restrictions the borrower takes a loan for the full costs. One could argue that the effect of the blending grant is thus to increase the number of projects that are undertaken – especially in DSF countries. In one case the El Noor concentrated solar power plant in Morocco the EU delegation was instrumental in ensuring adoption of appropriate European standards. In general terms, particularly in the more recent projects where the EU delegations were more actively involved, the delegations have contributed to sharpening the poverty targeting. There could also be an effect that with grants, more risky and innovative projects could be undertaken – however it is difficult to prove this and attempts to find counterfactual evidence has not been successful.

3.3 Reducing financial barriers

This section relates to evaluation question 7: "To what extent has blending contributed to improving access to finance for MSMEs?"

Summary response: 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 observed impact of blending on financial literacy levels and take up rates of guarantees and collateral-substitute products has however been limited. It was found that each of the blending instruments had a specific contribution in terms of reducing finance barriers for MSMEs. However, the extent to which blending 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.

Blending has improved access to finance for MSMEs at a modest scale - although the priority is being given to this area is increasing. The EFSE project (BANK/EFSE/MC #36) which has been operational since 2005 and has developed a long track record of results presents an example of the potential of blending supported instruments to improve access to finance. The benefits envisaged by the provision of risk capital vs the so called "C" shares, through blending, include:

- The raising of additional finance on a 1 to 5 ratio (whereby 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)). The finance raised is then available as lines of credit.
- Reaching small borrowers - close to 600,000 loans have been issued since inception in 2005 (EUR 4.1 billion) whilst maintaining microloan focus (loans below EUR 20,000) with an average outstanding loan EUR 5500. During 2014 alone some 120,000 loans were granted, with the agricultural sector receiving the largest share with roughly 31% of sub-loan amount disbursed.

During this period some EFSE has engaged with 74 partner financial intermediaries. The growth in micro loan lending has increased in the context of considerable sector and political risks in many EFSE countries and, following the financial crisis, an evacuation by most of the commercial Austrian, Italian and other international banks. EFSE is not the only project that has recorded significant results, the SME facility (IND/SME Facility/ REG #12) has also led to significant benefits where some 66% of loans are for MSMEs for a loan portfolio of EUR 40 million serving over 15,000 farmers and MSMEs.

However, compared to the scale of the overall blending facility, relatively few blending projects have targeted improving access to finance. Only 19 out of 203 blending projects accounting for EUR 130 million out of a total of EUR 1.7 billion aimed to improve access to finance. However, there is an increasing trend with access to finance projects rising from 0.47% in 2009 of the total expenditure to 7.5 % in 2014. It was noted at least by one IFI this corresponded approximately to the share of access to finance across the more general aid portfolio.

Blending has contributed through a variety of instruments although not to the potential possible. A range of relevant instruments have been used such as technical assistance to support both financial intermediaries and clients, investment grants to offer additional lines of credit and, guarantees and risk sharing instruments at portfolio and individual loan level. Although the results have generally been satisfactory there are also cases where they have not led to the potential possible. Factors that affect how well blending has contributed to improving access to finance for MSMEs include:

- The engagement of MFIs as opposed to larger banks as partner financial intermediaries
- The targeting of support such as technical assistance, lines of credit and financial literacy
- The addition of new segments and products

Access to finance has been more successful where micro finance institutions rather than larger banks are engaged as partner financial intermediaries – Blending has influenced the strategies of micro finance institutions in terms of entering new market segments, whereas this has been observed only in one case among the larger partner banks (the SUNREF partner bank in Kenya). There is for instance no evidence of an impact of EFSE on strategy of the partner banks toward MSMEs neither in Georgia nor in Moldova, whereas this has been observed where the partner was a micro financial intermediary. Where the partner financial intermediary is a large

well established bank, there is a tendency that it is the larger, existing customers that access the finance rather than new and smaller customers. IFIs report that banks are preferred as partner financial intermediaries because of conservative risk management strategies within the IFI, its board and its donors.

Where well targeted, support such as: technical assistance, lines of credit and financial literacy has been successful – Technical assistance has been highly valued at all levels where a distinct need was clearly present but much less so where this was not the case. Most micro financial intermediaries were in need of improved risk management and loan processing skills and have benefitted from technical assistance directed at this purpose. For example, in Georgia, technical assistance that was provided to micro financial intermediaries under the SME Finance Facility project (IND/SME Facility/REG #12). This project enabled the micro financial intermediaries to successful implement more efficient loan processes which in turn allowed their agricultural portfolio to grow with limited portfolio at risk. Similar technical assistance available to large banks has not been appreciated because to a large extent the banks already had the necessary skills and systems. Partner banks have valued the credit lines related to blending projects more than other project components such as technical assistance. However, in the SUNREF project (ENER/Env.Credit lines/REG #43-44) the technical assistance provided to the large banks was appreciated because it was directed at a clear and distinct capacity gap; that is, developing the capacity to enter the completely new market segment of small scale renewable energy and energy efficiency projects. Technical assistance has been provided to client MSMEs through SUNREF. In most cases, client MSMEs were appreciative of the technical assistance offered as it helped them to put together and present bankable projects (mini-hydro plant projects owners for example). But the case of SUNREF is again an exception, as some of the client companies were already highly skilled in preparing bankable projects and would have preferred softer loan conditions than technical assistance. It is interesting to note that whilst this was the case for most of the energy efficiency projects owners (e.g. photo voltaic and biomass installations), it was not the case for the renewable energy projects owners (hydropower plants), where companies were not skilled enough in presenting bankable projects and for whom the technical assistance was found valuable. Where technical assistance was foreseen and available to institutions that did not benefit from it (as in the examples above), this project component has not been withdrawn. .

Lines of credit were generally appreciated but again only when targeted at situations where the availability of loan finance was constrained such as was the case in Moldova. 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 otherwise have had access to loans.

The observed impact of blending on financial literacy levels and take up rates of guarantees and collateral-substitute products have been limited where the clients were already knowledgeable about the credit market. Blending has funded initiatives aiming at increasing financial literacy, notably through EFSE (BANK/EFSE/MC #36) 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 interviewed during the field mission 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, partner FIs had limited portfolios at risk. Except for partner MFIs, these risk adverse credit policies have not been implemented through blending projects. 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).

Blending has increased access to finance through addition of new segments and products – The SUNREF project (ENER/Env.Credit/REG #43-44) added value and increased the access to finance through promoting and providing the skills and loan concessions necessary to encourage banks to lend to a new and growing segment – in this case small scale renewable and energy efficiency projects. As a result small scale renewable energy and energy efficiency projects have a greater access to finance and a total of 37 million EUR have been disbursed during the phase I by a Kenyan partner bank that had no track record in this segment prior to the blending project. The development of new financial products has also led to greater access to finance. The SME Finance Facility project (IND/SME Facility/REG #12) introduced a first loss cushion which served to change the risk management practices of partner financial intermediaries. This was notable in Moldova where the first loss cushion has contributed to the decision of a partner financial intermediary 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%).

3.4 Improving coordination, reducing transaction costs and increasing visibility

This section relates to evaluation question 8: "To what extent have blended projects promoted coordination between European aid actors, lowered aid transaction costs and enhanced visibility of EU aid?

Summary response: Until 2014, donor cooperation occurred mainly at preparatory stage but was not systematic and shortcomings in cooperation were often noted. The 2014 blending governance changes gave impetus for strengthened donor coordination at preparatory stage. Especially since this period, blending has led to strengthened donor cooperation during project implementation. Although the MRI associated with blending was certainly a major factor in reducing transaction costs; it was found that blending did not led to the scale of benefits expected 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.

All the projects in the blending portfolio followed the principle of co-financing under a lead IFI – which has brought considerable coordination advantages and reduction in transaction costs. Co-financing under a lead IFI replaces the more cumbersome parallel financing where each IFI administrates their own part of the project. This approach, later formalised as the Mutual Reliance Initiative, was launched in January 2013 by AFD, EIB, KfW and the European Commission. By this mechanism, when co-financing projects, one of the 3 participating IFI partners takes the role of lead financier, relying on its standards and procedures as long as the minimum requirements of the other partners are met. All the projects under the blending portfolio have followed this approach (although for some project not tasks such as compliance checks and credit risk analysis are not necessarily delegated).

The coordination advantages arise from all the elements of the project being under a unified IFI management reducing for example mismatch in the specifications and delivery of equipment financed by one particular IFI. For large complex infrastructure projects this is a considerable operational advantage. None of the coordination problems that commonly occur with parallel

financing were found in the projects sampled. Another advantage that was evidenced from both desk and field examination is that each project had a consistent set of conditionalities and an agenda approach to capacity development and institutional reforms that did not vary from IFI to IFI. In some cases, this effect went beyond a single project and extended to all operations in a particular sector. For example, the KfW led project on the El Zayt wind farm (ENER/Wind Farm/EG #32) is consistent with the EIB led project on electricity transmission (ENER/PowerTrans/EG #31). Not only are similar policy reforms pursued (adoption of renewable energy) but the two projects are linked in that the transmission project has built a transmission line to evacuate the wind power from the El Zayt wind farm and distribute it into the grid. The transmission project also supported the management of intermittent generation from the wind farm and gave confidence to the national utility that large scale renewable energy generation, although complex, could be coordinated and made operational in practice.

One of the greatest benefits is that the lead IFI co-financing arrangement has significantly reduced transaction costs for the national partners since the partner only has to deal with one lead IFI representing a consortium. It has also reduced the internal transaction costs of the IFIs since only the lead IFI carries out the procurement, supervision, monitoring and reporting.

The arrangement, however, is not unique or dependent on blending and has been good practice among IFIs since the early 2000s. One could even argue that financing by single IFIs (where each IFI would finance fewer projects but finance them fully and alone) would bring similar or even greater coordination benefits.

Although there have been cooperation benefits and reduction of transaction costs, the transaction costs in particular remain high. The survey of EU delegations generally found that blending had improved coordination, however some 40% of respondents stated that transactions costs were not significantly reduced by blending. This disappointing finding was consistently supported in interviews with national partners, IFIs and EUD staff. Factors that affected, negatively and positively, the extent to which blending led to cooperation and transaction cost benefits included:

- Early in-country involvement of the EU delegation, lead donors and national partners
- The presence of partner-led donor coordination mechanisms
- Use of procurement procedures unfamiliar to the national implementing partners
- Separate financing agreements with different end dates
- EU approval procedures

Early in-country engagement between the EU delegation and lead donors has led to improved coordination – in the early years before the EU delegations had an endorsement role, the collaboration between EU actors and the lead IFIs was not systematic at the design stage. The delegations report that this gave rise to later coordination problems and made it difficult for the delegations to support or add value - for instance to resolve an issue relating to pollution in newly dredged port sediments (in the case of the Pointe Noire project in Congo-Brazzaville (TRANS/PAPN/CG #41-42)). In Armenia, which had a predominance of early projects, a lack of EU delegation involvement in the earlier years was reported as leading to competition between IFIs and a scattered rather than coordinated approach to developing project pipelines. This historical effect was also noted and confirmed by some of the IFIs.

These findings support earlier evaluation conclusions on the NIF "*Strategic cooperation between FIs and the EUDs is too limited. Exchanges between FIs and EUDs are too scarce, resulting in insufficient strategic coordination between EUDs and FIs at country level. NIF has been instrumental in increasing considerably coordination and synergies between FIs, particularly in the field… By jointly presenting projects to beneficiaries the*

EU and FIs would enhance the image of Europe, and reduce unproductive competition between FIs on specific projects." (DRN, NIF mid-term evaluation, May 2013, p49)

It is recognised in all countries visited and across all facilities and IFIs and most notably in the examples above (Armenia and Congo Brazzaville) that the situation today is very different and the EU delegation is closely involved and able to add value and contribute to coordination due to the new procedures put in place since 2012.

Engagement and ownership of national partners and the presence of partner-led donor coordination mechanisms has led to improved coordination - The engagement of national partners was notable in all the projects sampled and visited. The complicated and time consuming national procedures for gaining approval for taking a loan appear to enhance the degree to which the project is high on the national agenda. No projects were found where the national partners were not actively engaged in the project or where the projects were not high on the national priority. This accords with earlier findings from a study commissioned by the EIB on the ITF where it is concluded that "*African ownership and endorsement is demonstrated in all the reviewed projects; either directly via the Programme for Infrastructure Development in Africa (PIDA) Priority Action Plan status (69% of projects supported by the EU-ITF are directly contributing to PIDA) or via their link to regional or national strategies."* (CEPA study May 2014, p6). The alignment of blending projects to national and regional priorities ensures that the projects are at least coordinated with local priorities. An advanced donor coordination set up with sector working groups that are partner led was also found to be conducive with a good case being Egypt where the blending projects were closely coordinated with national partners and the budget support operations of the delegation.

In Columbia, by contrast, which does not have an advanced donor coordination led by national partners, the blending projects had high transaction costs and procedures and administrative requirements between IFIs have not been simplified in practice. Although the bending projects were 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 (WASH/IWRM/CO #20) and EU budget support operations, and in particular with the EU Sector Reform Contract for Local Sustainable Development in Colombia.

A specific case in Armenia was the Kotayk waste treatment project (WASH/KotaykSW/AM #13) which is financed by a single IFI. Other IFIs are also involved in the waste sector but a lack of coordination on the technical and institutional approaches, difficulty in engaging with national partners that were weak and fragmented led to the development of contradictory approaches to waste management. A similar problem also occurred in the energy efficiency sector where street lightening was promoted as an investment that was viable under commercial financing conditions by some IFIs and as needing subsidies by other IFIs.

Use of procurement procedures unfamiliar to the national implementing partners has increased transaction costs - IFIs generally speaking require procurements using loan or grant financing to follow the IFI procurement rules. In many cases TA is provided for Project Management Units (PMU) that have directly undertaken the procurement and also in most cases developed national 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 in Egypt (WASH/IWSP/EG #14), 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 (e.g. on procedures

for contract negotiation). 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. For the energy sector where International Competitive Bidding is the norm the same problem has generally not occurred.

Separate financing agreements with different end dates has led to increased transaction costs – although blending harmonises procedures and reporting, each IFI and the EU itself (for the grant element) sign separate financing agreements. On occasion this has given rise to high transaction costs and led to operational difficulties. For example, in Egypt the IWSP project (WASH/IWSP/EG #14) has 10 different agreements and each donor has a different expiry date so it is not possible for national implementing agency to determine a project end date and plan accordingly. The pari passu principle further complicates the effect of the different programme periods of the donors and makes it difficult to adjust within the donor financing to reach a common end date. For the electricity transmission project (ENER/PowerTrans/EG #31) this problem has been solved by issuing extensions in the expiry dates so that the project can plan with a single funding expiry date.

EU approval procedures are considered cumbersome - national partners and IFI representatives at the country level repeatedly point to heavy transaction costs associated with accessing and making use of the EU grant under blending operations. In Moldova for example it was noted, for the blending operations in the transport sector, that there are considerable transaction costs and delays associated with approval of the EU grant and the drafting and negotiation of legal agreements. In Mozambique, national partners and IFIs report that blending is more complicated than pure grant or loan financing. A similar message emerged from interviews with IFIs and national partners in Namibia.

Compliance with visibility rules and criteria is improving but the recognition of the EU role is still weak. The rules for visibility vary across the facilities e.g. the ITF projects reviewed did not generally include visibility clauses whereas the NIF and LAIF projects have a generic visibility clause inbuilt to the projects. Early projects tended to be lax about visibility NIF and this is reflected in the European Court of Auditors' report that "*the financial institutions have so far provided only limited visibility of EU grants in blended projects*" (European Court of Auditors, 2014). The NIF mid-term evaluation covering the period 2007-2013 also notes "*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".* (DRN, NIF mid-term evaluation, May 2013)

At the time of the in-country visits, although a systematic check was not made, no cases were found of visibility incompliance. However, it was found that compliance requirements such as the presence of sign boards at the often remote locations and the inclusion of the involvement of the EU in press statements was not enough to bring the about a recognition or perception of the EU role among national partners. The IFIs have the daily contact with the partners and beneficiaries and the projects are invariably associated with the lead IFI and not the EU. The practice of the EBRD of including advances in visibility actions in routine reporting in an innovation that has led to improved visibility.

3.5 Use of blending instruments

This section relates to evaluation question 4 "to what extent has the appropriate blending instrument or mix of instruments been selected".

Summary response: The blending instruments were selected and used appropriately given the situations encountered. In most cases the TA instrument was combined to good effect with one of the other instruments that provided a financial subsidy. The TA instrument was often essential for ensuring the highly complex projects were delivered to specification and at cost. There are opportunities to more deliberately direct the TA instrument towards longer term capacity development. Guarantees and risk capital have been used less that other instruments although in the later phases there has been greater use of these instruments.

Overall blending instruments were used appropriately for the situations encountered. The selection of the instrument was justified but often not well documented. Only rarely is the use of the instrument explicitly argued for and demonstrated. Later projects, projects in the financial sector and projects under NIF/EBRD where the transition impact is explicitly identified tend to be better justified. No cases were found where clearly the wrong instrument was used when another would have been more appropriate. Technical assistance has often been used in combination with the other instruments. It does appear that technical assistance for relatively small sums has provided significant value added. In many cases the projects would have been too risky to go ahead without the additional TA that blending made available.

The TA instrument was, for most projects, used in situations where there was a clearly identified need and significant results and benefits were achieved. 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. in commercialisation of public transport in Armenia (TRANS/MetroRehab/AM #9), institutional reforms and decentralisation of services in Egypt (WASH/IWSP/EG #14)). 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 in small Armenian municipalities (WASH/SMWP/AM #33).

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 strengthening national systems). 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 the results matrix.

In most cases the interest rate subsidy and investment grants were used either to respond to IMF conditions and/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 (Phase 3 of Water and Sewerage project in Batumi) 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 (as was the case for the small municipalities water and sanitation project in Armenia (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 as noted for the electricity transmission project in Egypt (ENER/PowerTrans/EG #31).

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" risks 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 tenures 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. Results achieved

This chapter presents the analysis emerging from evaluation question 9 on results.

This section relates to evaluation question 9: "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?"

Summary response:

Blended projects were generally designed to impact in the three major areas of expected impact: socio-economic infrastructure, climate change - particularly climate change mitigation - and private sector development. The design was sound overall and often supported by detailed feasibility studies, but in most cases the transmission chain from activities until results was 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 and the projects examined in depth (that were designed between 2008 and 2013) generally presented 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 often 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. However, the evaluation team could not as yet observe the effects of these changes.

In the vast majority of the cases examined, 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 and of the (likely) impact in terms of poverty reduction was generally scarce. Effects in terms of job creation were often not envisaged at design stage and remained modest during/after implementation.

Evaluation question 9 covers a number of judgement criteria focussing on:

- **Design** – the extent that blending project design was likely to lead to impact;
- **Poverty targeting** - the poverty reduction lens of blending projects;
- **Outputs achieved** - the status of implementation of blending projects as well as the outputs they obtained up to date;

- **Results achieved** - the results (likely to be) achieved for (near-) completed projects;
- **Job creation achieved** - the results in terms of job creation.

Contribution analysis highlights for six illustrative blending projects visited during the field visits are presented in Annex A3.

4.1 Design – the extent that blending project design was likely to lead to impact

The design of blending projects was appropriate and aimed at development impact in three major areas: infrastructure, climate change and private sector development. Blending projects largely aimed at improving access and use of key socio-economic infrastructure and enhancing climate change adaptation and mitigation. During the period 2007-2014, 63% of the portfolio of blending projects was directed to infrastructure related sectors and 17% of the portfolio focused on climate change related issues. One should note that climate change projects mostly focused on energy efficiency and renewable energy. Blending projects also aimed to improve the growth of MSMEs. With 8% of the portfolio being devoted to this theme, private sector support did not constitute a primary focus of blending. The remaining 12% of the portfolio covered multi-sectors or other sectors such as education, health, and others. The table 7 below gives examples of the objectives pursued by blending projects. The factors that affected how much the design of blending projects was conducive to deliver the intended results include:

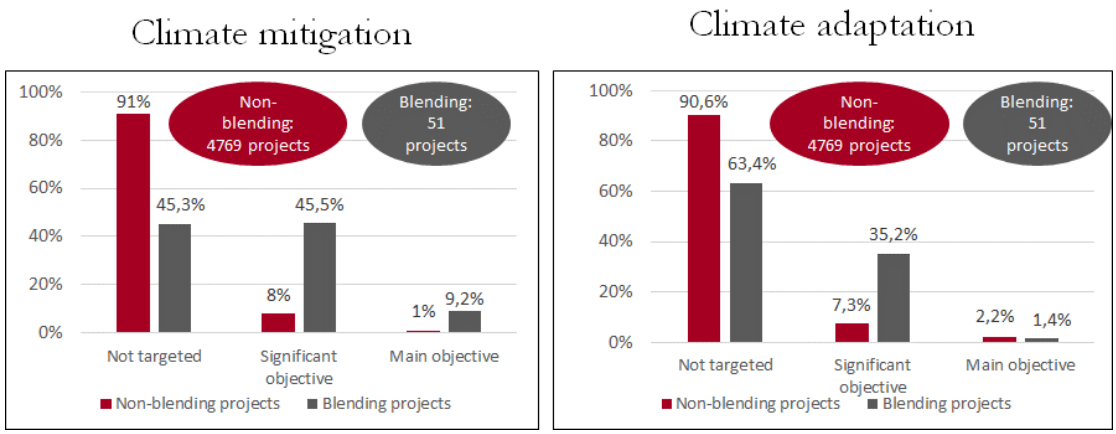
- The extent to which blending projects targeted strategic challenges, and
- The quality and soundness of project design.

In most cases, blending projects targeted strategic opportunities and challenges in various sectors and geographies. As detailed under Chapter 2 (and EQ1, including its Annex 1: Table on 'Special Challenges'), blending addressed challenges linked to weaknesses in market mechanisms and, in some cases, in the ability of the state to provide public goods. The close review of 32 projects visited by the team shows that these challenges encompass different areas: for example technology innovation (ENER/O.SolarPlant/MA #15), a poverty and millennium development goal focus (WASH/LVWATSAN/UG #27-28), public goods (ENER/O.SolarPlant/MA #15) and private sector finance in risky environments (BANK/EFSE/MC #36). Besides, the statistical analysis of the Rio markers on climate change mitigation and climate change adaptation [31] shows that blending projects targeted more environmental objectives than non-blending projects at design stage, and particularly climate change mitigation. 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 (see table below). However, quantifiable targets to be reached concerning greenhouse gas emission reduction were not systematically defined for the sampled projects. This is largely explained by the fact that this is only since 2014 that the application template emphasized climate mitigation and adaptation aspects with a specific sub-section dedicated to the Rio markers.

[31] This analysis was made for all EU projects approved during the period 2007-2014 in the 12 countries visited by evaluation team.

Table 6: Analysis on Rio markers

Blending projects targeted more environmental objectives than non-blending projects, and particularly climate change mitigation. 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 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 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.



Source: ADE

Moreover, blending projects focused on various geographical levels, be they regional, national or local. For instance, the Improved Water and Wastewater Services Programme (IWSP) project in Egypt (WASH/IWSP/EG #14) targets both small and larger schemes 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 encompassing considerable social disparity. Blending projects, providing credit lines in support of renewable energy, targeted countries such as Kenya, Tanzania, and Uganda that unsustainably use biomass fuel and suffer from low access to electricity (ENER/Env.Credit lines/REG #43-44).

Most projects examined were soundly designed, and hence had the potential to impact in the areas they targeted. The detailed review of the expected transmission chain from activities to results and impacts of the projects selected for in-depth review shows that in most cases the logic of the results chain was sound. Moreover, the design of the projects often relied on and benefitted from detailed feasibility studies -see also section 3.2- (e.g. Projects #1, #4, #29, #9, #10, #32 [32]), environmental and social studies (ENER/O.SolarPlant/MA #15), detailed economic and financial analyses (ENER/Ukrenergo/UA #8), or fitted in with identified investments as proposed in Master Plans (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.

[32] 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

Table 7: Examples of objectives pursued by blended projects in the three major areas of expected impact

Project #	Project objectives …	Conducive to impact on …
Key socio-economic infrastructure		
ENER/C.Intercon/NA-ZM #1	To secure energy supplies for Namibia through the provision of an interconnector between the Namibian, Zambian and Zimbabwean transmission networks	Namibian and regional economic development
TRANS/Corridor/MZ #26	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)	Mozambican and regional economic development
WASH/PNA-ONEP/MA #30	To enhance sanitation services throughout Morocco with extension and rehabilitation of networks as well as with the construction of wastewater treatment plants	Global environmental protection through less polluted rivers
Climate change		
ENER/Wind Farm/EG #32	To provide electricity from renewable energy sources for the Egyptian population	Global environmental protection through reduced CO2 emissions
TRANS/Public Trans/MD #10	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	Global environmental protection through reduced CO2 emissions
Private sector development		
BANK/EFSE/MC #36	To attract private capital and thereby leveraging investments for the development of the private sector, in particular MSME and housing	Regional economic development through PSD

Source: project fiches of blending projects and EU agreements

But the design of blending projects also often presented deficiencies. Explanatory factors to deficiencies in design include:

- The degree of thoroughness of the logical framework used for planning activities,
- The degree of anticipation and mitigation of risks, and
- The degree of pro-poor targeting (see section 4.2 below).

The logical framework used for planning activities was generally not sufficiently complete and was sometimes unrealistic. Whilst the logic of the results chain was overall sound, the full transmission chain from activities until results was most of the time not sufficiently spelt out and articulated in the design documentation. Moreover, quantifiable targets to be reached were usually not defined. For instance, only 15% of the projects examined closely (or 7 out of 46) indicate expected quantified targets in terms of greenhouse gas emissions. Finally, in specific cases only, the objectives set were too optimistic: this was largely the case of the Caprivi Interconnector project that over-rated the capacity of the project to positively influence external aspects (in this case the pace of Zambian construction of transmission lines) that were essential for achieving the overall objectives of rural electrification, regional integration and the wellbeing of the population (ENER/C.Intercon/NA-ZM #1).

Risk anticipation and mitigation was often insufficient. Whilst risks were considered in the design documentation, the risks were generally not sufficiently and/or adequately assessed during the design phase and/or the proposed mitigating measures were insufficient (see also section 3.2).

This was particularly the case of the projects examined during the field visits in Namibia, Mozambique and Egypt, and partly the case of the projects examined during the field visits in Armenia, Colombia, Congo and Moldova. In Mozambique, there was little risk assessment carried out for any of the blending projects examined. Combined with poor monitoring during implementation, this was a major problem for the Beira corridor project (TRANS/Corridor/MZ #26) as reported on in the World Bank supervision missions. As noted in the final evaluation report for the Caprivi Interconnector project (ENER/C.Intercon/NA-ZM #1), 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 also not sufficiently defined to allow for timely corrective action.

4.2 Poverty focus - the poverty reduction lens of blending projects

Until end 2013, the design and implementation of blending projects generally did not have strong pro-poor dimensions. As mentioned in the above section 3.2, most projects, examined in depth, did not convincingly target the poor. The design documentation of most examined projects across the various sectors and facilities did not explicitly examine the challenges to reducing poverty or present how to overcome them. Three infrastructure-related projects[33] - financed with three distinct facilities- are an exception with a relatively marked poverty lens at design stage. The pro-poor dimensions of blending projects were also weak during project implementation. This concerns all twenty-one projects reviewed except seven. Six infrastructure-related projects[34] - financed through ITF, NIF and LAIF - had a direct poverty alleviation effect related to the targeting of poor geographical areas. One PSD project financed through the NIF (BANK/EFSE/MC #36) aimed at reaching poor segments of the population. The box below details the cases where blending was successful in reaching out to the poor.

Box 2 – How blending focused on poverty reduction issues in some specific cases?

- 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. However the Transition Impact Monitoring System does not report on poverty-related actions or effects.
- WASH/IWSP/EG #14 & ENER/PowerTrans/EG #31: these two projects had little over poverty alleviation focus but still 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.
- 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).
- BANK/EFSE/MC #36 does not have an explicit pro-poor dimension in its objectives but when EFSE worked with micro-finance institutions it could reach less privileged market segments that is most vulnerable MSMEs.
- For the ongoing Benin Atlantic power project (#47), the grant is devoted notably to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity.

[33] WASH/LVWATSAN/UG #27-28; WASH/SMWP/AM #33; MULTI/SustDev/CO #19

[34] WASH/LVWATSAN/UG #27-28; WASH/SMWP/AM #33; MULTI/SustDev/CO #19; WASH/IWSP/EG #14; ENER/PowerTrans/EG #31; Benin-Togo Power Rehabiliation project

Factors that explain this limited poverty-reduction focus include:

A. The extent to which blending mechanisms emphasized poverty-reducing challenges and pro-poor targeting at design stage,

B. The fact that the contribution and comparative advantage of large scale blending projects to poverty alleviation is generally seen as indirect and stemming from broadly based economic development, and

C. The influence of IFIs prudent practices in their support to private sector development.

A. Until end 2013, blending mechanisms have only lightly emphasized poverty-related challenges. This recently changed with the guidance framework improvements since 2014. 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 include i) one indicator to measure outcomes that is explicitly linked to poverty reduction ('the number of beneficiaries living below the poverty line') and ii) 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 projects examined were all designed between 2008 and 2013.

B. The lack of explicit treatment of poverty issues in blending projects largely lies in the fact that these operations were large-scale infrastructure projects that aimed to indirectly contribute to poverty reduction through their impacts on economic growth, with an assumed 'trickle down' impact upon poverty[35]. There is limited project documentation available that justifies the impact on poverty for these projects. The link to poverty is assumed rather than justified and argued for. **Nevertheless, a review of literature suggests that public infrastructure capital investment has a significant and positive effect on economic growth, which in turn contributes to the alleviation of poverty**.[36]

- Studies highlight the key role of *energy* as a global commodity and as a cornerstone of socio-economic development. Sustainable economic development demands access, at affordable prices, to sufficient and diverse energy forms. Energy is also vital for 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). A recent study (EC, 2013) notes that global access to reliable energy services has a strong potential for positive socio-economic development in particular through the creation and expansion of new economic activities and

35 E.g. ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26, TRANS/PAPN/CG #41-42, TRANS/RoadRehab/MD #29, ENER/O.SolarPlant/MA #15, ENER/Wind Farm/EG #32

36 References include: 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; Cadot, Fernandes, Gourdon, Matto and de Melo, Evaluating Aid for Trade: A Survey of Recent Studies, The World Economy, 2014; Vijil, M. and L. Wagner, 'Does Aid for Trade Enhance Export Performance? Investigating the Infrastructure Channel', The World Economy, 2012; AFCAP, G. Porter, Transport services and their impact on poverty and growth in rural SSA, Durham University, 2013; EBRD, EIB, World Bank, What's Holding Back the Private Sector in MENA? Lessons from the Enterprise Survey, Washington, DC: The World Bank, 2016; Stockholm International Water Institute, Making Water a Part of Economic Development, 2005; European Commission, MedPro, The relationship between energy and socio-economic development in the Southern and Eastern Mediterranean, 2013; University of Cambridge and Cambridge Econometrics, Terry Barker, Briefing paper: 'The Macroeconomic Effects of the Transition to a Low-Carbon Economy, 2008'

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. Firms from the Middle East and Northern Africa have, according to World Bank business surveys, repeatedly singled unreliable access to electricity as one of the major obstacles they experience.

- With regard to *transport*, numerous studies confirm that transport projects contribute indirectly, through economic growth, to poverty reduction. Cadot, Fernandes, Gourdon, Matto and de Melo (2014), for instance, indicate that infrastructure has a positive impact on trade, while Vijil and Wagner (2012) note that "existing empirical literature has demonstrated that trade can be a powerful engine for enhancing (…) poverty reduction". Transport projects also directly impact the welfare of the poor by improving their access to basic services, creating direct employment, or securing agricultural jobs (Porter, 2013).
- Studies recognize the linkages between *water supply and sanitation* investments and economic growth and poverty reduction. Water supply and sanitation projects more so than the other types of projects, also directly benefit poor people especially when focused on deprived areas. Having a direct access to water enables population to save time, through a decreased occurrence of illness, and a closer access to facilities. This in turn leads to higher school attendance, and better productivity, which have a direct impact on poverty. The Stockholm International Water Institute notes for instance that poor countries that have a safe access to clean water have an average annual GDP per capita growth of 3.7%, against 0.1% for similar countries without improved access to water and sanitation.

As described in the inventory, 35% of the EU blending funds went to projects in the energy sector. It was followed by the transport sector (21%) and water and sanitation (20%).

C. The prudent practices of the IFIs led them to rather target existing customers, and hence not to focus on less privileged market segments. The two examined private sector support projects (IND/SME Facility/REG #12 and BANK/EFSE/MC #36) do not have an explicit pro-poor dimension as far as (final) beneficiaries reached are concerned. Indeed, global financial risk management practices tend to favour established clients and may not favour higher risk situations. 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.

4.3 Outputs achieved - the status of implementation of blending projects as well as the outputs they obtained up to date

Apart from a few cases, blending projects succeeded in achieving (or were likely to achieve) the planned outputs within cost estimates but usually with long delays. Out of the twenty-one blending projects examined in depth across the three main areas of focus of blending, fifteen achieved planned outputs and the six remaining ones, which are still ongoing, achieved part of the intended outputs. The box below presents examples of achieved outputs by blending projects.

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 ECOWAS, 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).
- ENER/PowerRehab/BE-TO #47: the Lomé-Cotonou-Onigbolo electricity line has been rehabilitated.
- TRANS/Corridor/MZ #26 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 are active and 30 436 borrowers (MSMEs) benefited from the European Neighbourhood Small Business Growth Fund window of the EFSE. Since 2009, the total amount of loans disbursed is €999.7m and the number of loans disbursed is 108 263.

The implementation of blending projects often suffered setbacks that delayed the achievement of project milestones. Thirteen out of the twenty-one projects examined experienced delays in implementation ranging from a few months to up to one or two years. Factors that affected timely project implementation included:

- Quality of project design,
- Quality of project monitoring,

- Professional competencies of the beneficiaries and contractors,
- Lengthiness of reform processes,
- Administrative bottlenecks, and
- Country specificities, in particular political stability.

Although most blending projects were well designed, there are cases where project implementation has suffered due to design shortcomings. Most blending infrastructure projects have been high quality projects, as further detailed in section 3.2. The soundness of project design represented a key prerequisite for a smooth and effective project implementation. For instance, in the Yerevan Metro Rehabilitation project (TRANS/MetroRehab/AM #9), technical assistance gave access to high quality professional expertise in technical designs and state-of-the-art technologies, which contributed to straightforward project implementation in an otherwise complex environment. Several projects however illustrate how shortcomings in project design negatively affected project implementation.

- This is especially the case of two projects: the Caprivi Interconnector (ENER/C.Intercon/NA-ZA #1) was over-ambitious and did not adequately assess risks at design stage whilst the Beira corridor project (TRANS/Corridor/MZ Rail component #26) suffered from flawed strategic decisions at entry. For the Beira railway project, the World Bank recognized in its 2012 Implementation Completion and Results (ICR) that the design was unusual in a number of aspects that exacerbated some challenges including the levels of Government of Mozambique 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. The Sena rail line, whilst limited operationally, was delivered two years late, requiring significant further work to be able to carry current coal traffic safely. The Machipanda rail line was not rehabilitated as planned due to the difficulties surrounding the concession.
- Besides, the credit lines extended to banks to promote renewable energy and energy efficiency projects in Morocco (ENER/SEFF/MA-JO #35) and in Kenya (ENER/Env.Credit lines/REG #43-44) also made over-optimistic assumptions on the readiness of banks to develop their activity in a risky market segment. The lengthiness of negotiations with participating banks postponed by a year the beginning of the implementation phase of the projects.

Quality monitoring positively influenced the course of blending projects. Monitoring was generally in place and of good quality (see section 3.2). The beneficiaries and the IFIs generally closely supervised project implementation. It constituted a key factor for proper project implementation. Noor I (ENER/O.SolarPlant/MA #15) illustrates how continuous monitoring of the construction works contributed to keep project implementation on track. As part of this process, project financing was made on the basis of the attainment of technical and financial milestones, and an independent auditor conducted performance tests after the works were completed before delivering a performance certificate for the exploitation of the plant. In contrast, a number of specific cases show how insufficient monitoring led to significant delays during project implementation. The World Bank notes in its 2012 ICR report on the Beira railway project (TRANS/Corridor/MZ #26) that the monitoring 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.

The degree of professional competencies of both beneficiaries and contractors was a key factor in ensuring the successful implementation of blending projects. In most cases examined, both beneficiaries and contractors displayed strong professionalism. This factor contributed to successful project implementation. For instance, even though activities were significantly delayed and varied in quantity, the quality of construction management consultants

partly explains the successful implementation of the Moldova Road project (TRANS/MetroRehab/AM #9). Conversely, the concessionaire of the Beira corridor project (TRANS/Corridor/MZ Rail Component #26) displayed poor performance overall. This led the Government of Mozambique to terminate the concession – which was not a good precursor for private sector involvement in the rail sector of sub-Saharan Africa according to the 2012 ICR World Bank report - and to select a new implementing agency.

Lengthy reform processes delayed implementation. For instance, the Chisinau Public Transport project (TRANS/ PublicTrans/MD #10), which supported the design and procuring of an electronic ticketing system and the restructuring of the institutional and regulatory framework for public transport in Chisinau, was delayed by several years. The adoption of the transport strategy has been lengthy but finally completed in mid-2015 whilst the e-ticketing system already delayed for several years was not yet in place early 2016.

Administrative bottlenecks have often delayed project implementation. A wide range of the projects examined faced procurement-related issues that resulted in lengthy project preparatory phases or implementation. Some of these issues relate and are common to the type of complex infrastructure selected for support by blending, others are more specific to blending e.g. the use of IFI procurement systems and the difficulty of entirely harmonizing multi IFI projects. There were issues with procurement procedures and the information systems for the technical assistance component of the Port of Pointe Noire project (TRANS/PAPN/CG #41-42). FINDETER has had to go through a steep learning curve to master the LAIF procurement guidelines (MULTI/SustDev/CO #19). For the Modernization of Bagratashen, Bavra, and Gogavan Border Crossing Points project decided in 2013, differences in government, executing agency and IFI procurement procedures, although often minor in detail, led to long delays for the procurement of scanning equipment. Besides, cases of slow contractor's/consultant's mobilisation were noticed for two examined projects (WASH/LVWATSAN/UG #27-28 and OTHER/TAMunic/UA #34).

In specific cases, country specificities negatively influenced the course of blending projects. The deterioration of the political situation in Egypt in 2011 WASH/IWSP/EG #14; ENER/PowerTrans/EG #31; ENER/Wind Farm/EG #32) and Ukraine in 2013 (OTHER/TA Munic/UA #34) delayed project implementation for several months. For instance, at the time of the site visit in Egypt in November 2015, only about 20% of the IWSP I water investments were completed. This was due to the complex political situation as well as the high level of decentralization in project implementation and rushed contracting done under the D+3 requirement resulting in poor designs. For these projects, amendments to the consultancy contracts were signed to extend time duration to ensure sufficient time for project implementation. The sanitation project in Morocco (WASH/PNA-ONEP/MA #30) faced a delay of over a year mostly owing to disputes over the acquisition/use of the land for constructing the wastewater treatment plants in the various centres concerned by the project.

4.4 Results achieved - the results (likely to be) achieved for (near-) completed projects

Note: With a view to be in a position to report on the results achieved at this stage through blending projects, the evaluation team focused the assessment of the results on projects belonging to the earlier days of blending practices. The 21 projects examined in depth were approved between 2008 and 2013, with three of them being approved between 2010 and 2013. Out of the 21 projects reviewed, 9 (#1, 3, 8, 9, 10, 26, 29, 42, 44) are completed and 4 are near-completion (#15, 27/28, 33, 47); the others are ongoing with end dates between 2017 and 2021. The review focused on the 13 (near-) completed projects and also took account of a few ongoing projects that already

achieved some results. This concerns 4 projects (#32, 35, 12, 36) at the level of the use of the outputs by the beneficiaries and 2 projects (#12, 36) at the level of the results.

The measurement of (likely) development results is constrained by shortcomings in project design and results monitoring. Firstly, overall project objectives tend to be confined to the outputs of blending projects without identifying and/or quantifying longer-term expected results in most cases examined. Secondly, the type of reporting carried out generally does not provide proper results monitoring. Whilst regular monitoring was carried out, the project progress/monitoring reports either prepared by the promoter or the lead IFI (or outsourced for EU Results Oriented Monitoring and final ex-post evaluations) generally detail progress on the activities carried out but reporting on outputs and results remains quite scarce. In this regard, it is worthwhile noting that the EBRD generally realized a much more extensive reporting than the other IFIs. Through its Transition Impact Monitoring System, the EBRD systematically monitors the implementation of transition impact components identified during project preparation and provides a transition impact benchmarks table that details the achievements and difficulties encountered throughout the chain of intended effects. It also provides detailed information in a user-friendly format on the results achieved through its Operation and Performance Assessment review carried out at project completion stage.

In most of the cases examined the outputs of blending projects are being used and appreciated by the beneficiaries. Out of the 17 cases examined, 12 present a positive picture concerning the use by the beneficiaries of the outputs delivered. The five other projects either present a mixed or negative record of success. The figure below presents examples of achievements obtained through blending projects.

Figure 8: What type of use have beneficiaries made of blending projects?

Positive use by beneficiaries	**Infrastructure-related sectors** • Project TRANS/MetroRehab/AM #9 resulted in enhanced safety and reliability of the metro service • Project TRANS/RoadRehab/MD #29 led to improvements for road users but the project was running significantly behind schedule in achieving its results • Project WASH/SMWP/AM #33 has rehabilitated infrastructure and improved services for 17 municipalities in Armenia with wastewater treatment in two of them • Project ENER/PowerRehab/BE-TO #47: the national electricity distribution companies perceived positively the improvement brought by the project **Climate change** • Project ENER/O.SolarPlant/MA #15: the ONEE uses the electricity produced by Noor I while the population benefits from the local development projects implemented by MASEN in Morocco • Project TRANS/PublicTrans/MD #10: the population of Chisinau uses with satisfaction the trolleybuses • Projects ENER/SEFF/MA-JO #35 and ENER/Env.Credit lines/REG #43/44: these two credit lines projects impulsed at bank level a change of mind-set towards the renewable energy and energy efficiency market segment **Private sector development** • Project IND/SME Facility/REG #12: with the Georgian Agricultural Finance Facility, the number of agricultural clients of these MFIs has constantly risen over the course of the programme from 2012 up to 2014 • Project BANK/EFSE/MC #36: EFSE's end beneficiaries made investments in energy efficiency equipment (Moldova) and in better business conditions (Georgia) thanks to the loans received from partner financial institutions
Mixed use by beneficiaries	**Infrastructure-related sectors** • 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 • Project TRANS/PAPN/CG #42 boosted the traffic of containers but problems exist in terms of transit/access costs with a lot of intervenient in the port stifling the traffic
Negative use by beneficiaries	**Infrastructure-related sectors** • Project ENER/C.Intercon/NA-ZM #1: the Caprivi Link Interconnector was not fully utilized at the time of the final evaluation • 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 **Climate change** • Project 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

Source: ADE

Most blending projects examined achieved or are likely to achieve their intended results. Infrastructure-related (near-) completed projects have achieved results to the extent initially planned in more than half of the cases examined (five out of nine cases: #9, #29, #33, #47, #27-28[37]). The four remaining projects present a mixed (#3, #42[38]) or negative picture (#1, #26[39]) as far as results are concerned. Moreover, two of the ongoing projects (#30, #31[40]) have the potential for development results. Most examined climate change related projects (five out of six cases: #10, #32, #15, #35, #42[41]) are likely to achieve environmental results as planned but quantification of the results achieved so far was generally scarce. They especially have the potential for reduction in energy consumption and in greenhouse gas emissions. For instance, 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 (ENER/O.SolarPlant/MA #15). They also often have the potential for wider socio-economic impact. For instance, MorSEFF (ENER/SEFF/MA-JO #35, project 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). One project (ENER/ Ukrenergo/ UA #8) could not lead to expected results: the full corporatization process of Ukrenergo was not yet completed in July 2015 due to the conflict situation in Ukraine. For the two PSD-related projects (IND/SME Facility/REG #12, BANK/EFSE/MC #36), 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 figure below illustrates the results achieved across the sectors targeted.

The main factors explaining the success or failure of blending projects to achieve intended results are similar to the ones explaining why outputs have/have not been reached, such as quality of project design and political and institutional context (see section 4.3 above). An element more specifically linked to the results level includes the scope of the results to be obtained.

Blending projects generally tended to confine the overall objectives to be reached to the outputs of blending projects. This de facto minimised their potential development impact. In most cases examined, and particularly for infrastructure-related projects, there is strong similarity between the expected outputs and the overall objectives of blending projects, so that the intended development impacts are not explicitly identified. Likewise, final beneficiaries to be reached have not been identified in the design documentation. For instance, the overall objective of the Yerevan metro project (TRANS/MetroRehab/AM #9) is to address immediate emergency repairs of the metro.

37 TRANS/MetroRehab/AM #9; WASH/LVWATSAN/UG #27-28; TRANS/RoadRehab/MD #29; WASH/SMWP/AM #33; Benin-Togo Power Rehabiliation Project

38 ENER/ERERA/REG #3; TRANS/PAPN/CG #42

39 ENER/C.Intercon/NA-ZM #1; TRANS/Corridor/MZ #26

40 WASH/PNA-ONEP/MA #30; ENER/PowerTrans/EG #31

41 TRANS/PublicTrans/MD #10; ENER/O.SolarPlant/MA #15 ; ENER/SEFF/MA-JO #35 ; TRANS/PAPN/CG #42

Figure 9: What type of results have blending projects achieved or are likely to achieve?

Positive results	**Infrastructure-related sectors** • Project TRANS/MetroRehab/AM #9 resulted in energy savings and introduced greater elements of consumer orientation and commercialisation in public utilities • Project TRANS/RoadRehab/MD #29 led to landslide stabilization, less specific air pollution, and less fuel consuming. It also reduced road user costs through the rehabilitation of particular sections of roads. Its expected impact on facilitating economic growth and regional integration is however more difficult to quantify. • Project WASH/SMWP/AM #33: the wastewater treatment plants are reducing the pollution in the river but secondary use of sludge from the mechanical treatment is not yet systematic. The project contributed to consolidating a market delivery approach in the sector. • Project ENER/PowerRehab/BE-TO #47 introduced better services in the electricity supply with less electricity cut offs • ENER/ PowerTrans/EG #31 (ongoing): 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 (ongoing) resulted in an improvement of the rate of connection to the sanitation system for the population of three urban centres (30 centres to be covered in total) **Climate change** • Project ENER/O.SolarPlant/MA #15 shall avoid greenhouse gas emissions (at least 762,000 ton CO2eq yearly) when the full solar complex (Noor 1,2,3) will be finalised. The project generated business around renewable energy locally and in Morocco. The population of the Ouarzazate region benefited from 38 local development projects in education, health, agriculture, and infrastructure. • Project TRANS/PublicTrans/MD #10 improved the traffic and the ecological situation of Chisinau. 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. With the new 90 trolley buses, CO2 emissions were projected to be reduced by approx. 30,000 tones per year. • ENER/ Wind Farm/EG #32 (ongoing) led to lower carbon emissions and the use of clean fuel (but offset carbon emissions are not quantified) • ENER/Env.Credit lines/REG #43/44 led to: switch to RE and energy savings among the beneficiaries; net savings in energy bills for SMEs; and first signings of Power Purchase Agreements with Kenya Power to sell surplus solar energy into the grid
Mixed results	**Infrastructure-related sectors** • Project ENER/ERERA/REG #3 has had limited development results so far, since there is currently no strong regional regulation activity in West Africa • Project 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)
Negative results	**Infrastructure-related sectors** • Project ENER/C.Intercon/NA-ZM #1: affordability of electric power did not improve; energy independence from South Africa was not achieved as planned due to insufficient imports, especially of renewable energy from Zambia; and access to electricity in the rural areas did not improve. • Project TRANS/Corridor/MZ #26: project development objectives (economic growth through regional integration) were not achieved **Climate change** • Project ENER/Ukrenergo/UA #8: the corporatization process was not yet completed in July 2015 due to the conflict situation in Ukraine

Source: ADE

4.5 Effects on job creation

Job creation was generally not part of the expected objectives to be reached at design stage. Only five out of the twenty-one projects reviewed (#1, #12, #15, #26 and #36) aimed to impact positively on the creation of jobs and new businesses, and 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. Employment effects were often not quantified in the monitoring/evaluation reports. As a consequence, **there was little information about the effects of blending projects on job creation.**

When examining further the sample projects, we could observe that employment effects occurred during the construction period. The Caprivi Interconnector project (ENER/C.Intercon/NA-ZM #1) was expected to create 1000 person-years of employment during construction [42], with no permanent additional employment effect anticipated. The operation and maintenance of the Sena line (TRANS/Corridor/MZ #26) was expected to employ about 800 persons of whom roughly half were planned to be new recruits. However the progress reports did not report at the time on jobs effectively created. The effects of the Ouarzazate Solar Plant (ENER/O.SolarPlant/MA #15) on job creation have been slightly below expectations with around 2,000 staff employed at the peak of the construction phase (against 3,000 envisaged) and 62 permanent staff (against 90 envisaged) to run Noor I. The project reached a level of local content of 30% of the plant capital cost as planned which served to stimulate private sector and create jobs. Project TRANS/PublicTrans/MD #10 led to the creation of 12 permanent jobs for assembling the buses in Chisinau. For EIB projects supporting private sector development (IND/SME Facility/REG #12 and BANK/EFSE/MC #36), progress reports do not examine job creation. During the field visits, our team noticed that seven additional projects (#10, 14, 29, 31, 42, 43/44, 47[43]) led to temporary job creation during the construction phase as well as to permanent job creation even though this was not foreseen or documented as a potential outcome at design stage. Effects in terms of job creation could not be systematically quantified by the people interviewed during the field trips. When quantified, they ranged from 5-10 until 300 temporary jobs depending on the project.

In general, a number of studies[44] suggest that infrastructure investment has a strong positive effect on employment level. The Stockholm International Water Institute (2016), for instance, estimates that, in the Middle East and North Africa region, an investment of one billion US$ in **sanitation** infrastructure would yield approximately 81 000 full time jobs (direct, indirect and induced). The same investment in **transportation** infrastructure would result in 59 000 jobs, while investing in **energy** would create 28 000 jobs. A World Bank study on the same region (2014) also confirms positive effects of infrastructure investment on employment, albeit with somewhat different numbers; it estimates that "spending on construction of roads and bridges would generate more than twice as many jobs as the same amount of spending in any of the

[42] The 2015 final project evaluation confirms that employment effects occurred during the construction phase, but do not quantify them.

[43] TRANS/PublicTrans/MD #10, WASH/IWSP/EG #14, TRANS/RoadRehab/MD #29, ENER/PowerTrans/EG #31, TRANS/PAPN/CG #41-42, ENER/Env.Credit lines/REG #43-44, ENER/PowerRehab/BE-TO #47

[44] Schwartz J, Andres L, Dragoiu G, Crisis in Latin America: Infrastructure investment, employment, and the expectation of stimulus, Washington DC: Journal of Infrastrcture Development 1(2), p111-131, 2009; Antonio E, Ianchovichina E, Bacon R, and Salamon I. Infrastructure and Employment Creation in the Middle East and North Africa. Washington, DC: World Bank, 2013 ; Stockholm International Water Institute, The Water Report 2016, SIWI report n°37, 2016

other sectors. Construction of water and sewage infrastructure is the second most job-intensive activity relative to spending, whereas transport and communications is the least job-intensive activity."[45] This is illustrated in the table below. It also indicates the amounts of the blending-supported projects in the region in those sectors, and provides on this basis an extrapolation of the number of jobs possibly created, i.e. 230 000 to 1.6 million jobs (direct, indirect and induced).

Table 8: Impact of infrastructure investment on job creation

SIWI study's estimates in the Middle East and North Africa			World Bank study's estimates in MENA oil-importing countries[46]			Blending-supported projects in Middle East and North Africa[47]		
Sector	Investment	Jobs created	Sector	Investment	Jobs created[48]	Sector	Investment	→Extrapolation on SIWI and WB: order of magnitude of jobs created
Sanitation	$ 1 Billion	81 000	Construction : water and sewage	$ 1 Billion	120 000	Water and sanitation	€ 1.4 Billion	~10 000 – 160 000
Transportation	$ 1 Billion	59 000	Construction : roads and bridges	$ 1 Billion	311 000	Transport and storage	€ 3.9 Billion	~230 000 – 1.2 million
			Transport	$ 1 Billion	28 000			~100 000 – 230 000
Energy	$ 1 Billion	28 000	Construction : electricity	$ 1 Billion	58 000	Energy generation and supply	€ 4.6 Billion	~120 000 – 260 000
			Electricity	$ 1 Billion	41 000			~120 000 – 200 000
						Total		~230 000 – 1 600 000

Source: SIWI, WB, ADE

Another study in Latin America (Schwartz, Andres, Dragoiu, 2009) found a regional average of 80,000 new direct and indirect jobs per billion US$ invested. Blending-supported projects invested over 6 billion euros (13%) in this region. By analogy, the projects supported by blending could have led to 480 000 direct, indirect or induced jobs.

It hence emerges, with all due care, that **the projects supported by EU blending may have resulted in the creation of 710 000 to 2.1 million jobs (direct, indirect and induced) in the three main sectors in the Middle East and North Africa region and in Latin America.** These projects represent about a third (33.7%) of the investment of the overall portfolio of projects supported by EU blending.

[45] Those three sectors represent together more than three quarters of blending funding. Energy is the sector that was targeted the most, with 35% of funding, followed by Transport (21%) and Water & Sanitation (20%).

[46] Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza

[47] The countries concerned by blending in this region are: Armenia, Egypt, Jordan, Lebanon, Morocco, Tunisia

[48] Regional weighted average calculated with weights corresponding to each country's population in 2009, numbers obtained in the World Bank study.

5. Overall conclusions and recommendations

The conclusions are grouped across the 3 areas of results, value added and strategic relevance. They are based on the findings outlined in chapters 2 to 4, which are in turn derived from the analysis of the evaluation questions, judgement criteria and indicators as presented in detail in volume 2. The linkages between findings and conclusions are given in detail in Annex A2. A full tracing from indicators, judgement criteria and evaluation questions to conclusions is presented in volume 2.

The recommendations respond to the conclusions and point to where there are opportunities to further improve current practice, considering blending as an instrument and across all different types of blending projects. A number of lessons learned are also brought forward, especially on the value added by blending and these are presented later in Box 5.

5.1 Conclusions – Strategic relevance

Conclusion#1 Blending allowed the EU to engage more broadly and with strategic advantage - particularly in support of large infrastructure projects and for cooperating with countries in transition to medium income status.

Blending enabled the EU to engage in countries (lower medium and medium income countries), sectors (infrastructure) and projects (with specific policy challenges) which would have been mostly out of reach with grants alone. Some 68% of blending occurred in lower medium countries and 13% in medium income countries, thereby providing a means for continuing to engage as a development partner in the growing number of lower-middle and middle income countries. In addition, 76% of blending operations were in capital-intensive infrastructure sectors (energy, transport and water & sanitation) which, by sheer project size, would be largely out of reach of development support were they to be funded by grants alone. And to varying degree, most blending projects reviewed had a special challenge that needed to be addressed to ensure success (see Box 4). The special challenges were addressed by the grant element – thereby demonstrating the additionality of blending; for example, the EFSE project (BANK/EFSE/MC #36) objective is to finance Micro, Small and Medium Enterprises in 15 Neighbourhood countries, but the special challenge was to mobilise private resources to do that. The blending grant (an investment in EFSE's first-loss 'C' shares) has facilitated the mobilisation of over €400 million for financing Micro, Small and Medium Enterprises in these risky environments.

Blending enabled the EU to guide a broader partnership of multiple European institutions towards addressing development objectives and policy goals including climate related objectives, supporting infrastructure, boosting private sector development and making progress on MDGs (SDGs). DEVCO has assembled a comprehensive guidance framework comprising guidelines, training courses, official documentation of the Facilities and explanatory notes for partners e.g. the guidance notes for the new application form. These guidance elements, together with the project dialogue embedded in the facilities' technical review processes, have served to steer the main IFI partners (EIB, AFD, KfW, EBRD and AECID) towards addressing several high-level policy goals and contribute to development cooperation more effectively than in earlier years. However, some of these guidance elements emerged well after the launch of blending operations.

Blending offered the EU opportunities to significantly increase its potential sphere of influence for promoting specific policy priorities in the global development arena by virtue of its grants being associated with around 20 times more development funding (originating mainly from key development finance partners but also to a lesser scale from private sector investors). Project by project analysis shows that in most cases reviewed blending grants have either a) caused other funds to be mobilised (such as private sector investors in the EFSE project), and/or b) enabled previously earmarked funds to be formally approved and committed (such as for the Ouarzazate Solar Power Project (ENER/O.SolarPlant/MA #15) and for the Lake Turkana Wind Power project), and/or c) redirected funding to policy-compliant objectives (such as for the Seychelles Internet Connector project where grants were used to widen access to internet). Blending mechanically offered the EU opportunities to broaden its potential sphere of influence on the global development stage, by virtue of 'having a voice' in IFI projects where it is providing grants. This is a potential way to steer development projects where it was not in the lead towards the achievement of specific development objectives e.g. climate, infrastructure improvement, and private sector development (in some cases with an enriched pro-poor dimension). The team could not gather evidence on the extent to which the EU has actually made use of this potential '*sphere of influence*', mainly because this matter - which would merit a report of its own - falls outside the scope of this study.

Box 4 - Special challenges and examples of the role of blending

There are a range of underlying reasons that justify the intervention of a grant in responding to the special challenges. Fundamentally these are linked to weakness in market mechanisms and, in some case also the inability 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. Such weaknesses are related to deficiencies in the information environment, in the perception of risk and, in the capacity and knowhow of the private and public sector (including failure in technology diffusion). Such weaknesses are also associated with the presence of dysfunctional institutional set ups that, unaided, are unable to take the right decisions. The presence of vested interests, severe regional disparities, and gross inequalities also distort and complicate decision making in a way that blocks action. Poor countries or countries that have a history of bad economic decisions do not have the fiscal space to take on the full borrowing cost that would allow them to benefit from positive externalities and finance highly economically feasible projects that are not financially feasible. Neither do they have the space to contribute fully to financing global public goods such as climate change and biodiversity.

In the situations described above, a grant can 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. In response the different blending instruments allow for a varied response where projects can 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. The evaluation found examples of how blending instruments have been used to address the underlying reasons for the special challenges including:

- **Information – using the grant to improve the information environment so that private sector actors make the right decisions** –In Kenya the Sunref project (ENER/Env.Credit lines/REG #43-44), 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 #10) by providing a first loss cushion and preferential shares has demonstrated to investors and local financial institutions that investment and lending to the agricultural and other productive sectors is profitable
- **Capacity - using the grant element to introduce and develop capacity to make use of new technology** -over a sequence of phases wind energy technology has been supported through grants in Egypt (ENER/Wind Farm/EG #32) to build up confidence in its use and capacity to maintain and replicate the technology.
- **Reforms - using the grant element to cover part of the political cost of difficult reforms** – in the Yerevan metro project (TRANS/MetroRehab/AM #9) grants were used to introduce conditionalities on the increase of tariffs and improvements in staff productivity.
- **Social disparities – using the grant so the market reaches marginalised population groups –** in the Benin Altantic project the grant was used to bring electricity to unserved communities as part of a wider transmission project.
- **Positive externalities – using the grant to ensure economically feasible projects with high environmental and social benefits go ahead even if financially not feasible** -the grant element of Kampala water and sanitation project (WASH/LV/WATSAN/UG #27-28)

Conclusion #2 The blending instrument, particularly for projects approved in the earlier phases, did not reach its full strategic potential and did not address as fully as it could have the development challenges of lower income countries - for a variety of reasons

Some 72% of blending resources have benefitted lower medium (56%) and medium income (16%) countries – although this is highly influenced by the historical dominance of the Neighbourhood Investment Facility. During the same period the overall EU support to lower medium and medium income countries was 69% responding to the challenges of ensuring that

countries that have recently attained lower medium income status do not slip back. It can be noted that the number of lower income countries has halved from 58 to 28 from 2000 to 2014. It should be noted that large income disparities exist within lower medium and medium countries meaning that activities in these countries can still target the poor. It is also relevant to note that blending by only engaging with countries that have the fiscal space to take additional loans rightly tends to focus on the less poor countries. Nevertheless, 26% of blending focussed on low income countries. And, some 9 projects in fragile states have also been carried out. Two projects visited during the field missions indicate the potential that has been realised for poverty alleviation in low income countries (one involving water supply and sanitation in Uganda and another involving access to electricity the Atlantic province of Benin) This indicates that blending has a potential and capability to address the challenges of low income countries but also that without some changes in the historical practice of identifying projects, blending will find it difficult to respond to a greater prioritisation on supporting the development needs of lower income countries.

The additionality of the blending grant i.e. the focus on resolving specific challenges that could not be solved by a loan alone was not systematically emphasised in the earlier years under evaluation. In the early stages of blending, with mostly ITF and NIF operations, the projects (and previous application forms) did not emphasise additionality as clearly as the latest projects (the latest application forms now have 10 additionality related criteria). For many of the early projects in the analysis sample, the additionality dimension was not explicitly evident from the project documentation and was identified only after interviews with the project officers. The projects selected for blending did not emphasise the pro-poor dimension and especially in the earlier years were not as closely aligned with national policies as they could have been.

The blending guidelines were developed late. The guidelines are dated November 2015 and were published for general distribution in the spring of 2016. This was some 7-8 years after the first blending operations were launched. Training was provided since around 2012 with occasional half-day familiarisation courses presented to Brussels headquarters staff. Again this was well after the launch of blending operations, and was slow to cover all relevant staff. Since 2013 training efforts have intensified considerably.

Too few IFIs were involved from an earlier stage. While there was an understandable need at the outset to concentrate on 'making blending work' with a few partners, over 90% of blending is still done with four major partners (EIB, KfW, AFD, and EBRD) and one smaller but significant partner (AECID). Efforts are now underway to involve others; both within Europe (notably the European Development Finance Institutions such as DEG, FMO and Proparco) and in the regions by allowing the African Development Bank to lead on AfIF projects, and the IaDB and CDB to lead on CIF projects. But this effort comes late in blending's history, and more results may have been achieved if more financial institutions had been involved from an earlier stage.

The positive findings on blending could lead to the question: 'how much of EuropAid's support should be blended?' (it was about 4% for the 2007-2013 development cycle, and may reach 8-10% in the current 2014-2020 development cycle). Whilst this evaluation can contribute to addressing this question it cannot entirely resolve it – a resolution goes beyond this evaluation, as it needs detailed policy analysis, requires insights into the effectiveness and relevance of other instruments like budget support, the actions of other donors and, ultimately requires a policy level decision. What can be said at this stage is that there will be a set of countries (lower medium and medium income countries), sectors (especially but not exclusively infrastructure) and projects (those with specialised challenges) where blending potentially has a comparative advantage over pure grants and in many cases would also be the most effective support instrument. There are

also prospects, which would require a change in current practice, to direct more blending support to lower income countries and target more clearly the poor both in low income and lower medium countries. The proportion that blending makes of total EuropeAid then depends principally on the EU policy priority on those countries, sectors and projects and on the degree to which blending can succeed in sharpening its pro-poor dimension and therefore also relevance to lower income countries.

5.2 Conclusions - Value added

Conclusion #3 Blending has, in many instances, added significant value to the EU's grant based development cooperation and also brought added value to IFI loan operations.

Where value has been added it has related to: leveraging policy reforms, creating high quality projects, unlocking available finance for improving access to finance and improving coordination to EU development cooperation.

Some blending projects contributed – mostly through TA grants - to the advancement of the national policy reform agendas that were also more widely supported by the EU and other partners such as the World Bank. There are examples of blending constructively supporting policy reforms particularly in the energy, transport and water and sanitation sectors across geographic regions. An example is the Moldova road rehabilitation project (TRANS/RoadRehab/MD #29) where it was found that the project was instrumental in advancing the intended reforms by building capacity and making the project conditional on adoption of the road reform strategy. Other prominent examples are the projects in renewable energy and transmission in Egypt (ENER/Wind farm/EG #32 and ENER/PowerTrans/EG #31) where blending, working closely with EU sector support and others, has helped to start an evolution from grant financing of renewable energy infrastructure to loan financing, and finally to trigger prospects for considerable private sector financing of the sector.

Blending projects, often by directly using the grant made available, have led to robust and well-functioning projects that have been prepared with rigour - for example on ensuring high quality environmental impact studies. There have been long delays, which is not unexpected but in most cases the projects, through very close monitoring, often supported by grants for project management units (PMUs) and other support structures, have delivered to specification and avoided large cost overruns. Operation and maintenance has been taken seriously and plans and procedures drawn up e.g. the El Zayt wind farm in Egypt (ENER/Wind farm/EG #32) has a multi-year post construction operation contract to ensure a smooth process of training and handover.

Blending has also added value in widening the access to loan finance and reducing the financial barriers for micro, small and medium size enterprises (MSMEs). As MSMEs are an engine of growth in many countries, this effect has a multiple contribution to development. Blending has demonstrated that it can contribute to improving access to finance especially when working with micro financial intermediaries. The SUNREF project (ENER/Env.Credit lines/REG #43-44) in East Africa is an example where blending has supported improved risk management practices in banks leading to a significant increase in the lending to MSMEs in the renewable energy sector.

Blending led to strengthened donor coordination especially in the recent years with a greater involvement of the EU delegations, particularly at preparatory stage – by ensuring consistent approaches were adopted across grant and loan operations. IFIs have exchanged knowledge and

experience by cooperating on blending projects. The EU visibility generally remained low in the cases examined but there are some projects where the EU, though blending, has been associated with large and very high priority projects such as the Noor I solar plant in Morocco.
Blending has mobilised the skills and experience of the IFIs and through its scale also served to deepen and enhance these skills within the IFIs. Without the blending operations carried out through the IFIs, the EU would not have been able, at least with its current staffing arrangements, to engage to the same extent in complex and large scale infrastructure and access to finance operations. The banking, risks management and project supervision skills of the IFIs have added value to the EU development cooperation. And, the development insights of the EU have added value to the operations of the IFIs.

Conclusion #4 Blending grants have played a role in supporting private sector development but mainly in the finance sector:

This conclusion is supported by the following observations[49]:

- By financing C shares, blending grants have contributed to the mobilisation of private sector financial resources for PSD. For example, in providing the risk cushion sought by private investors, the blending grant funded first loss C shares supported the mobilisation of Euro 575 million in private funds for the EFSE (comprising 356 million in A shares and Euro 219 million in class A notes)50. While this is impressive, it is not yet clear:
    a. Whether the ratio between grant funded first-loss C shares and private resources is acceptable – and whether this could be improved with time? So far at EFSE it is 0.65 (meaning that for every Euro 1 of private funding there is Euro 0.65 of risk cushion), but perhaps this could be reduced if investors with a greater risk appetite could be reached, maybe to be in the range of 0.3-0.4. That would achieve greater leverage of the grant-funded first-loss shares[51].
    b. Whether the Funds can appeal to a broad(-er) base of private investors that have a higher risk tolerance and need less C-share risk cushion to invest their funds for developmental purposes.
- By providing partial credit guarantees funded by blending grants, there is evidence that banks have expanded the sector breadth of their lending portfolios to include for example agriculture which was previously considered too high risk (finding in Georgia for the SMEFF). Again this is a promising start, but there is insufficient evidence to judge whether this impact will be sustained if the guarantee were withdrawn or reduced (in terms of percentage covered).
- There is evidence that some new borrowers, previously unbanked, have been drawn into formal finance, but there is also contrary evidence that these special lending schemes

[49] Note. There were few projects in the sample focused on financing small business and boosting private sector development – basically two, EFSE and SMEFF. Although SUNREF used a similar structure (line of credit with TA channelled via financial intermediaries) this focused on energy efficiency and renewable energy rather than PSD. This therefore is a scant basis upon which to generalise conclusions. Although we note that the core financial structure of these early projects is now replicated in more recent projects (risk mitigation via first loss C shares e.g. in the Micro-Finance Fund for Asia – MIFA, Eco-Business Fund for SME Development in Latin America, and the Green for Growth Fund) these have not been examined in detail to enrich the preliminary conclusion.

[50] Source: EFSE accounts Q1, 2016

[51] The Green for Growth Fund (Annual Report 2015 Financial Statements page 28) shows a ratio in the range 0.4-0.46 depending on the holders of the notes (not specified). This is already a more efficient ratio, though so far for a smaller Fund than EFSE.

supported by blending grants have financed small enterprises which already had bank loans. However, with the size of EFSE (754,000 borrowers since inception in December 200552) it is highly likely that a serious number were first-time borrowers, representing improved access to finance.

- The full potential of blending to mobilise the private sector within industry, energy, agriculture and other areas is not yet reached. New instruments under development such as ElectriFI and AgriFI have the potential to extend the reach of blending approaches and lead to longer term private sector development.

- There is an impression that micro-finance institutions may be best placed to reach new, hitherto unbanked, borrowers because they can assess smaller riskier customers, but this does not imply that banks with specialised risk management capabilities adapted to SMEs could not achieve the same. It depends more on the strategy and policy of the institution, and its risk management approach, than on its status (micro-finance lender or bank).

Conclusion #5 The lead IFIs approved by the EU have internal procedures that are a major element in ensuring the high quality of blending projects; the closely scrutinised process of project by project approval by the EU and the provision of grant funds for technical assistance support the development of high quality projects especially where the risks are higher.

Technical assistance grants for blending projects have been used to ensure: well-conceived and robust designs; closely supervised implementation and, attention to operation and maintenance. However, although blending grants were often used for this purpose, the adherence to international norms and best practice was ultimately a result of the internal IFI procedures rather than necessarily being dependent on the EU grants or unique to blending. The IFIs have had a strict adherence to standards of project preparation and execution. Without the blending grants, the IFIs themselves report that they would not have compromised on quality or accepted lower standards.

The procedures of the IFIs are thoroughly assessed by the Commission prior to authorizing an IFI to act as Lead. Through the preselection of IFIs and the closely scrutinised project by project approval, the Commission only contributes to the financing of projects with high quality standards. These projects are prepared by IFIs based on their internal procedures and due diligence and in accordance with the division of labour agreed with blending partners.

In the absence of blending grants or other sources of concessionary finance the options for IFIs and their national partners would have been that: i) the project would not go ahead because of the debt sustainability framework restrictions or ii) where there were no debt sustainability framework restrictions the borrower would have taken a loan for the full costs (including the technical assistance). One could argue that the effect of the blending grant was thus to increase the number of projects that are undertaken – especially in countries under the debt sustainability framework. There could also have been an effect that with grants, that more risky and innovative projects could have been undertaken – however it is difficult to prove this and attempts to find counterfactual evidence have not been successful.

[52] Source: www.efse.lu

Similarly, although coordination and transactions costs have significantly improved, compared to the days of parallel financing (where each IFI and donor would independently finance a specific element of a project) it could be argued that this is more a result of the Mutual Reliance Initiative which although associated with the EU (and developed in response to the early challenges of blending and non-blending projects) is not unique to or dependent on blending. Blending however, takes full advantage of the MRI and the MRI approach is compulsory for blending operations.

Conclusion #6 There are also cases, particularly for the older projects, where the value added was less than the potential

It should be noted in the context of the contribution of blending to policy change, that the main objective of many of the blending projects was not to bring about policy changes but to provide much needed infrastructure. Nevertheless, the scale and national importance of blending projects, often in sectors that are dysfunctional but undergoing partially implemented reforms, creates an important opportunity for developing institutional capacity and bringing in much needed changes in policy and practice. In many cases blending projects have responded to these opportunities as evidenced elsewhere in this evaluation. However, there are still a significant number of cases where influence on policy reforms and institutional capacity has been disappointing. An example is the Pont Noire port in Congo Brazzaville (TRANS/PAPN/GG #41-42) where the otherwise largely successful investments in the new port did not contribute to the wider issues of longer term sustainability of the infrastructure and did not address the role of the port in the overall transportation masterplan. Another example is the Beira transportation project (TRANS/Corridor/MZ #26) where opportunities to reinforce commercialisation and private sector engagement in operations were lost. The desk study and interviews revealed a number of examples where early blending projects pushed ahead with projects that ran counter to the policy reform efforts of the EU delegations, especially as concerns the establishment of cost recovery systems. Examples are reported from early water and sanitation projects in Ukraine (where the project did not sufficiently take into account the need for action on tariff reform) and from proposed energy efficiency (street lighting) projects in Armenia (where a national strategy of encouraging investment to be paid from energy savings was reportedly not being supported by the project).

There have been some cases, such as in Georgia for the otherwise successful EFSE programme (BANK/EFSE/MC #36), where the lines of credit being offered to increase access to finance did not have the intended effect as the country was over-liquid. In other cases, there were examples such as in Moldova, where the credit reached existing rather than new customers and did not add value in the sense of bringing in new customers.

The overwhelming evidence emerging from interviews with beneficiaries and project managers is that blending has not led to reductions in transaction costs and rather the opposite due to procurement and other rules that are unfamiliar and sometimes incompatible with national procedures and further complicated by the introduction of many funding parties.

Whilst it is true that compliance with visibility rules and criteria is improving the recognition of the EU role was still weak for most projects – as a result there was a potential loss of political capital.

Conclusion #7 A body of good practice on adding value has been developed and has led to lessons learned that form a basis for continual improvement.

Good practices that positively influenced policy leverage include:

- Linking blending projects with wider reform packages, EU focal sectors, budget support and relevant EU partnership/ association agreements.
- Mobilising the knowledge and insight of IFI country offices with a long track record of focussed support to specific sectors.
- Implementing capacity development strategies that optimised the impact of technical assistance on future institutional performance.

- Incorporating a transition or policy related objective into the core objective, rationale and design of the project - such as was the case for the later EBRD projects.

Even where the operating environment has been challenging, blending projects of high quality are associated with:

- Realistic feasibility studies;
- High quality project preparation and design combined with close supervision and monitoring;
- Operation and maintenance plans and support.

Whilst these factors are part of normal professional practice and not unique or special to blending, the scale and complexity of blending projects made the application of such good practices essential and any weakness or failure becoming quickly apparent.

Access to finance was more successful where micro finance institutions rather than larger banks were engaged as partner financial intermediaries. And, where well targeted, a mix of support to improving access to finance such as technical assistance, lines of credit and financial literacy created results. Blending has been particularly successful in increasing access to finance when it led to the addition by banks and financial institutions of new lending segments and products e.g. in Kenya with the addition of renewable energy lending products to a range of banks.

Early engagement of the EU delegation and national partners led to improved coordination and reduction of transaction costs.

Finally, the evaluation also confirms that the current range of blending instruments was sufficient and able to respond to the needs. There was a strong finding that although TA was often well designed, partner owned, demand led and results based, a systematic approach to capacity development was often missing.

Box 5 - Summary of lessons learned on value added

- Practices that improve policy impact include: i) linking blending projects: to wider reform packages; EU focal sectors, budget support and association /partnership agreements where relevant and ii) developing projects with explicit transition/policy reform objectives and capacity development strategies
- Investment in the project preparation, design and supervision phases pays off in terms of robust projects delivered to cost and specification
- Sustainability prospects are closely related to the level of project ambition and especially the extent to which realistic assumptions are made concerning progress on issues such as tariff increase, coordination across countries and increase in institutional performance
- Micro-finance institutions are more successful than convention banks, as partner financial institutions, in reaching new customers and increasing access to finance
- Early engagement of EU delegations and national partners leads to better coordination
- A passive reliance on visibility agreements is not enough to bring about EU visibility and mobilise political capital
- Relatively minor disparities in procurement and other procedures can cause disproportionality high transaction costs

5.3 Conclusions - Results

Conclusion #8 To a large extent blending projects, have been successful and have already achieved or are likely to achieve the intended results and there is evidence that the project outputs are being used and appreciated by the beneficiaries.

The majority of completed and close to completed projects have achieved (or are likely to achieve) their intended results – albeit often with long delays. Examples of projects where results are achieved and benefits have already had their intended effects include the construction of El Zayt (ENER/Wind farm/EG #32), the largest wind farm in Egypt and El Noor the world's largest solar concentration power plant in Morocco. The power being generated by these projects is already being fed into the national grid systems with longer term potential for regional connection.

Like all complex projects operating in the challenging environments typically found in many developing and transition countries, the main factors that positively affected project implementation (whether or not they are funded through blending) are related to: the soundness of project design, the quality of project monitoring and, the professionalism of partners and contractors. The main factors that negatively influenced project implementation are: the lengthiness of reform processes, administrative bottlenecks and political instability at country level. A feature that stood out for blending projects was that the IFIs had adequate systems, approaches and procedures in place to put blending projects back on track when they were delayed or subject to unforeseen changes. The supervision and the monitoring of physical and financial project progress by the IFIs or their agents has been very thorough. However, the degree to which socio economic, transition and development impacts (as opposed to physical progress) were monitored varied and was often a weak point of the blending projects. The transition monitoring impact reports carried out by the EBRD, particularly for the more recent projects, are an example of good practice that has scope for wider replication within blending projects.

There are also a few cases where projects did not succeed and did not contribute as planned to economic development or poverty alleviation because they did not reach their intended results. Examples include the Caprivi connector project and the Beira corridor project in Southern Africa (ENER/C.Intercon/NA-ZM #1, TRANS/Corridor/MZ #26). The Port of Pointe Noire project (TRANS/PAPN/CG #42) although completed successfully has had mixed economic results.

There is little information available on job creation. Only five out of twenty-one projects reviewed actually aimed to impact positively on the creation of jobs and new businesses, and only three of them set quantitative targets to be reached in terms of temporary and/or permanent job creation. Available information points mainly to direct employment during the construction period. Nevertheless, a literature review indicates that the type of investments supported by blending, mostly large infrastructure projects in energy/transport/water in low-middle income or low income countries, have a positive effect on employment level.

Conclusion #9 Project design was sound overall and as a consequence most of the projects that are still incomplete are likely to lead to their intended impact, however the internal project logic particularly for earlier projects was weak and the potential for poverty alleviation not optimised.

The logical framework used for planning activities was generally not sufficiently complete and was sometimes unrealistic. Whilst the logic of the results chain was overall well-conceived, the full transmission chain from activities until results was most of the time not sufficiently spelt out and articulated in the design documentation. Moreover, the quantifiable targets to be reached were usually not defined. The practice in EBRD of defining and justifying explicit transition goals with indicators that are later monitored through the transition impact monitoring reporting has been, as mentioned earlier, very useful.

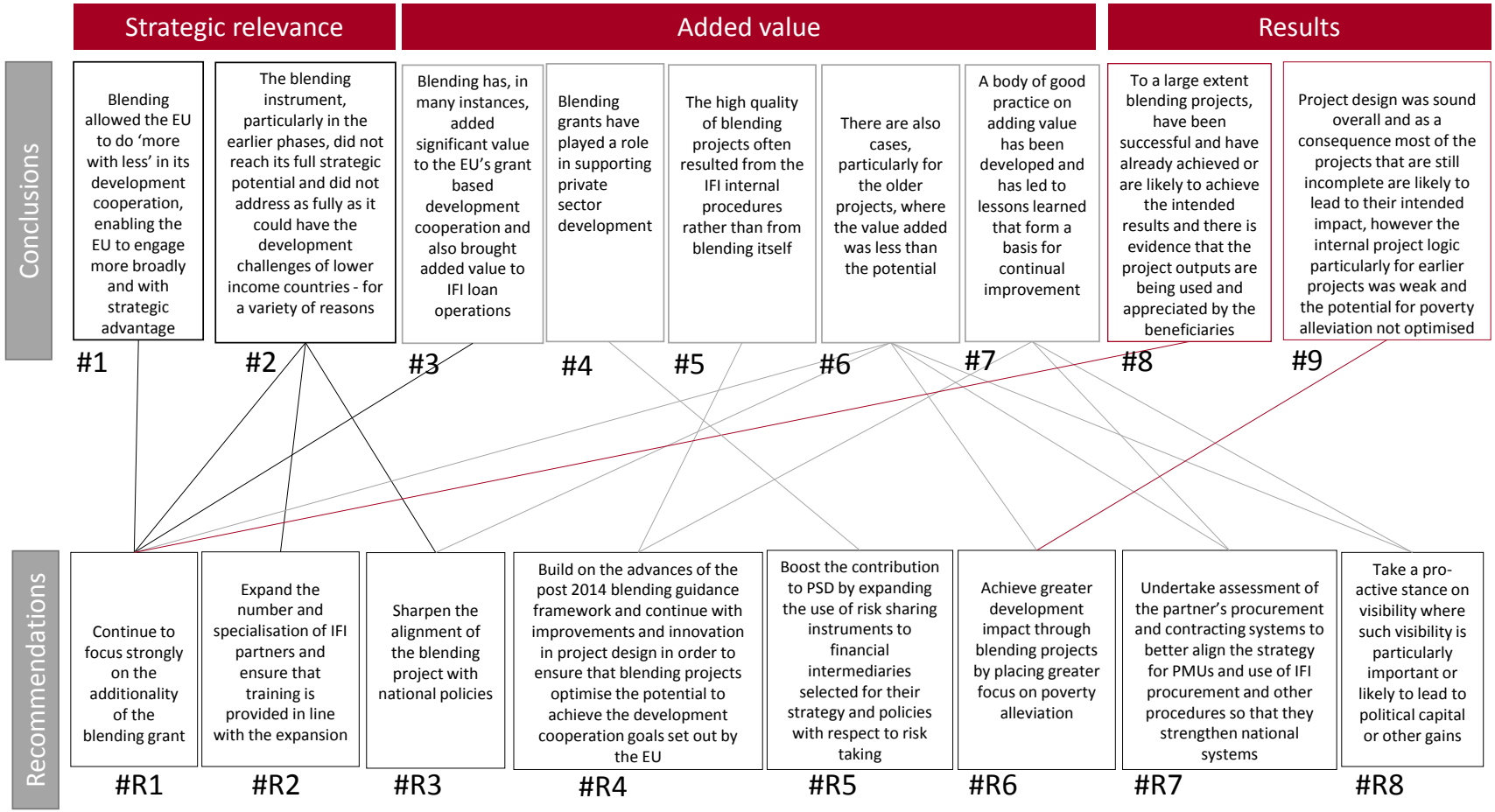
In many cases the nature of the blending projects and the comparative advantage of blending meant that blending projects aimed at macro-economic development rather than direct poverty alleviation. Large scale infrastructure aiming at improving the macro scale economic development can be an important and also essential contribution to poverty alleviation – but the linkages are not automatic and the targeting and selection of the projects and the consideration of alternatives to better serve the poor need to be informed and justified by more in-depth analysis than was usually available. However, even bearing this in mind the comparative advantages of blending, there were missed opportunities to better and more directly target the poor (there are examples of projects across all sectors that were successful in this regard). Gender was rarely targeted. The gender of borrowers, for the project focussing on lending to SMEs and individuals, is not noted or emphasised in the reporting although in many of the countries, gender is a key issue for improving access to finance.

An example of where a deliberate pro-poor effect is being achieved by a blending project is the ongoing Benin Atlantic power project where the grant is devoted to ensuring that 81 rural communities of the Atlantic province in Benin be supplied with electricity. In general, the water related projects had good poverty targeting and examples include Kampala water and sanitation (WASH/ LVWATSAN /UG #27-28). Gender was rarely targeted. The gender of borrowers, for the project focussing on lending to SMEs and individuals, is not noted or emphasised in the reporting although in many of the countries, gender is a key issue for improving access to finance.

Within improving access to finance, the prudent practices of the IFIs and their partner financial institutions led to a tendency to target existing customers, and hence not to focus on less privileged market segments.

5.4 Recommendations

Figure 10: Link between conclusions and recommendations



Recommendation #1 Continue to focus strongly on the additionality of the blending grant.

Rationale: The early projects often failed to make the additionality of blending grants explicit. Yet this should be a key focus of any blending application – to truly focus on "what the project will have with the grant that it otherwise would not have". This recommendation can be achieved through action such as:

- Emphasise the need for the grants to solve a problem (such as a market failure or a failure to provide public goods) that cannot be as well solved with just a loan. This has already been recognised in the latest application form, where topic 29 requires the IFI to explicitly address additionality.
- Continue vigilant and close scrutiny in the technical assessment meetings at facility level.
- Consider using resources for post construction follow up on sustainability issues.
- Expand the use of risk sharing approaches; in particular, scrutinise the use of investment grants so that they are only used where highly justified and, consider innovative measures to bring technical assistance under loan rather than grant finance, including the use of revolving funds for grant financed project preparation work.

Implementation responsibility: IFIs, EU delegations and blending facilities' technical assessment meetings

Recommendation #2 Expand the number and specialisation of IFI partners and ensure that training is provided in line with the expansion

Rationale: Expanding the number of financial institution partners should increase the range and volume of blending applications presented to the facilities. This recommendation can be achieved through action such as:

- Encourage regional non-European development banks to participate actively and where relevant lead on blending (AfDB for AfIF, IaDB and CDB for the CIF).
- Where relevant brief, build awareness and support other IFIs that have a potential for future blending operations such as AfDB).
- Explore new partnerships with European development financial institutions and other European institutions.
- Explore, in the longer term, the potential of partnerships with civil society based organisation that have a robust track record of managing loan funds (this could if well managed bring a new dynamic to implementation of recommendation #5 on enhancing the poverty impact).

Implementation responsibility: IFIs, European Development Financial Institutions, DEVCO

Recommendation #3 Sharpen the alignment of the blending project with national policies.

Rationale: Although blending projects were broadly aligned with the facilities' objectives, the explicit link between the project and national objectives and priorities was often not clear enough. This recommendation can be achieved through action such as:

- Increase the awareness of IFI staff and EU delegation staff.
- Pay special attention to topic 22 in the application form which requires explanation of policy alignment, ensuring that this relates not only to the facilities' policy objectives but also to relevant national policies.
- Ensure that the technical assessment meetings scrutinise this aspect in detail.

Implementation responsibility: IFIs, EU delegations, technical assessment meetings (facilities)

Recommendation #4 Build on the advances of the post 2014 blending guidance framework and continue with improvements and innovation in project design in order to ensure that blending projects optimise the potential to achieve the development cooperation goals set out by the EU.

Rationale: The development potential of blending has not been fully mobilised in the past. The findings of this evaluation support the application of the approaches outlined in the new guidance framework. It is noted however, that whilst the guidelines are well-conceived and respond to most of the challenges faced by blending projects, it is also important not to over-complicate blending operations and rely on a lean approach combined with skill building within the IFIs. This recommendation can be achieved through action such as:

- Incorporate the development and transition aims more explicitly in the objectives, intervention logic and results matrix, policy reform and transition goals;
- Undertake capacity assessments and incorporate capacity development outcomes in the results matrix;
- Subject the assumptions, the justification of the grant and the assessment of risks to sharper scrutiny

Implementation responsibility: National partners, IFIs, EU Delegations, EU blending facilities

Recommendation #5 Boost the contribution to PSD by expanding the use of risk sharing instruments to financial intermediaries selected for their strategy and policies with respect to risk taking. For instance:

- In order to boost private resources available for PSD; special risk cushions can be used to crowd-in private funding but further effort will be needed to make that more efficient (i.e. a lower ratio of C-shares to private investments coming from a wider range of risk tolerant private investors)
- In order to broaden and deepen the financial sector; credit guarantees are effective but future innovation should focus on creating sustainability for when the guarantees are reduced
- In order to improve access to finance for the unbanked; financial intermediaries should be selected based on their strategy, policies and risk management approach for first-time borrowers, rather than only because of their status as a bank or a micro-finance institution.

Implementation responsibility: IFIs

Recommendation #6 Achieve greater development impact through blending projects by placing greater focus on job creation and poverty alleviation.

Blending projects generally aimed at wider macro-economic development rather that grass root targeting of the poorest of the poor for which other instruments are usually better suited. Although blending projects lead to job creation this was not monitored (it is now through the new results framework) and job creation effects are not optimised. It is important to recognise that although blending cannot address all issues and has a comparative advantage in serving large scale economic development aims, there are still many opportunities to also optimise impact on poverty alleviation and the creation of decent work. This recommendation can be achieved through action such as:

- Scale up the blending resources available for projects serving poor populations and addressing root causes of poverty in low and lower medium income countries including employment related issues – adjusting the grant levels where justified;

- Analyse and understand the poverty and employment profile in the project-affected area consider explicitly the needs of the poor and measures that protect the poor against potential adverse effects;
- Where projects have an infrastructure or macro-economic development focus and in the spirit of the new European External Investment Plan, examine and if relevant support and ensure that advantage is taken of the downstream employment prospects e.g. an improving electricity supply that can expand SME activity.
- Select partners such as micro finance institutions, where relevant to do so, that will be effective in reaching the poor.

Implementation responsibility: National partners, IFIs, EU Delegations, EU blending facilities

Recommendation #7 Undertake assessment of the partner's procurement and contracting systems to better align the strategy for PMUs and use of IFI procurement and other procedures so that they strengthen national systems.
Rationale: Much of the transaction costs and frustration experienced by implementing partners on blending projects arose from IFI procurement and other management systems. Whilst it is recognised that the IFIs assess partner capacity, rely on partners to implement the procurement and provide technical assistance where there is weakness; there is still further opportunities to strengthen the capacity of partners and partner systems rather than bring in new staff and substitute with new systems. This recommendation can be achieved through action such as:

- Assess the partner institutional capacity and fiduciary performance;
- Assess safeguards that could be taken such as strengthening partner systems before replacing them with external IFI systems (where relevant link to, support and take advantage of budget support to public financial management and administrative reforms that are being supported by the EU and others);
- Develop an institutional and capacity development strategy that ensures that even if external IFI systems are used, residual capacity for project management will remain where such capacity is needed in the future.

Implementation responsibility: National partners, IFIs

Recommendation #8 Take a pro-active stance on visibility where such visibility is particularly important or likely to lead to political capital or other gains.
Rationale: Visibility rules are generally followed by the IFIs but the in-country perception of the projects rarely reflects the involvement of the EU. If the range of IFIs is expanded beyond the European IFIs, the low visibility effect will become even stronger. This recommendation can be achieved through action such as:

- Encourage in the project design a continuous outward accountability to the beneficiaries and political level on the evolution and performance of the project. This means that the project should advertise itself locally and explain to politicians and to the beneficiaries and others what it is doing, why it is doing it, and what it has achieved. It should invite for example local schools and communities to the site and get them involved. Prioritise active engagement of EU delegations in seminars, conferences, press releases, for projects where greater visibility and recognition is likely to bring political capital or other benefits;
- Carry out visibility surveys and undertake corrective action depending on the perception found.

Implementation responsibility: EU Delegations

Annex A1: Evaluation Matrix

This annex presents the main evaluation findings as they emerged from each of the nine Evaluation Questions. Findings are grouped by judgement criterion and are provided at the indicator level. The tables further provide the sources of information, as well as an appreciation of the quality of the evidence for each finding – according to the following scale: "Weak"; "Indicative but not conclusive"; "More than satisfactory"; "Strong". Details on the findings are provided in Annex B2 (Volume II) and on the methodology in Annex C2 (Volume III).

EQ 1	**Strategic relevance: To what extent has blending been strategically relevant and valuable?**		
Evaluation pillar	Strategic Relevance		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 1.1 Extent to which blending has resolved specific strategic challenges	1. Blending projects have generally addressed specific challenges that required blending grants to be solved (1.1.1)	*Interviews with national partners*, backed up with the review of project fiches/application forms; & EU Agreements for the 32 projects visited in the field; and interviews with IFIs and EUDs	More than satisfactory
	2. 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 (1.1.1)	*Interviews with national partners*, *IFIs and EU HQ and in the field,* backed up with the review of project fiches/application forms; & EU Agreements for the 32 projects visited in the field	More than satisfactory
	3. Blending has often been successful in resolving the specific challenge it was used for (1.1.2)	*Interviews with national partners, IFIs and EU HQ and in the field*; backed up with project monitoring and final reports for the 32 projects visited in the field;	More than satisfactory
	4. Blending responded in various ways to the underlying reasons related to the special challenges (1.1.2)	*Interviews with national partners, IFIs and EU HQ and in Delegations*; backed up with project monitoring and final reports for the 32 projects visited in the field;	More than satisfactory
	5. Blending has been a way to target key policy objectives that covered multiple sectors in half of the cases reviewed (1.1.3).	*Project fiches/Application forms; & EU Agreements for the 32 projects visited in the field*; *and interviews* with *national partners.*	More than satisfactory

EQ 1	Strategic relevance: To what extent has blending been strategically relevant and valuable?		
JC 1.2 Extent to which blending has been strategically advantageous	1. 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 (1.2.1).	*Statistical data: World Bank data (Atlas method)*; and Study by Reisen and Garraway: The future of multilateral concessional finance, 2013 for GIZ	Strong
	2. Under the impulse of the Agenda for Change reform drive, EU policies tended to restrict all-grant financing with more advanced developing countries (including middle-income countries) over time. This also mirrors the general trend of donor policies with respect to middle-income countries (1.2.1).	*General-level documentation*, including EU 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	Strong
	1. Both EU overall assistance and EU blending finance reflected these policy trends (1.2.1).	*Statistical data:* EuropeAid data; WB data for country classification; Inventory of blending projects produced within the frame of this evaluation.	Strong
	3. 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 (1.2.1).	*General-level documentation*, including: 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	Strong
	2. 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 (1.2.2).	*Statistical data:* IMF data; WB data; Inventory of blending projects	More than satisfactory
	4. Blending has often offered advantages compared to alternative financing options, be they all-grant or all-loan (1.2.3).	*Interviews in headquarters and in the field for the 32 visited projects*; Inventory of blending projects; project documents	More than satisfactory

EQ 2	Alignment: Has the EU pro-actively guided the pipeline of projects in order to align the portfolio with policy targets?		
Evaluation pillar	Strategic Relevance		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 2.1 Existence and dissemination of clear strategy, guidelines and transparent selection criteria for blending	1. The EU has progressively put in place a comprehensive guidance framework to shape the pipeline of blending project applications to the Facilities (2.1.1)	*EU guidance documents*, including the Strategic Orientations Document, the Multi-Annual Indicative Policy and the Annual Action Plan at Facility level; 'EU Guidelines on EU blending operations, 2015' and 2014 'application form' template	Strong
	2. 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 (2.1.1)	*EU guidance documents*, including; 'EU Guidelines on EU blending operations, 2015' and 2014 'Application Form' template; Interviews with EU staff in headquarters	Strong
	3. The depth of the information requested in the project fiches/application forms templates has increased over time (2.1.1)	*Project fiches for sampled projects* dated 2008 to 2014; *and 2014 application form and its updated 2016 version*	More than satisfactory
	4. Mirroring the greater depth of information requested in the project fiches, project selection criteria became more comprehensive over time (2.1.2)	*Project fiches for sampled projects* dated 2008 to 2014; *and 2014 application form and its updated 2016 version*; interviews with IFIs headquarters	More than satisfactory
	5. 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 (2.1.2)	*Project fiches of 15 projects examined in detail*	More than satisfactory
	6. Moreover, an extensive training programme started in 2012 and progressively developed from 2013 but its outreach remained modest so far (2.1.5).	*Interviews with EU and IFIs* representatives in headquarters and in the field; blending training material.	More than satisfactory
JC 2.2 Extent to which blending led to enhanced and amended project features during project processing	1. 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 (2.2.1)	*Interviews with EU and IFIs representatives* in headquarters and in the field	Indicative but not conclusive
	2. EU blending facilities often exercised quality control to strengthen compliance with policy objectives and eligibility criteria during early preparation stages (2.2.1, 2.2.2)	*EU, Guidelines on EU blending operations, 2015*; *Minutes of the TAMs; Interviews with EUDs representatives in the visited countries;* other guidance documents (EU blending training programme material; EUBEC, Discussion paper on the future governance of the EU blending facilities, 2014)	More than satisfactory
JC 2.3 Blending portfolio alignment with national/regional and EU development policies reflecting transparent criteria	1. The blending projects have targeted the global policy objectives set for the facilities (2.3.1)	*EU blending facilities strategic documentation; blending inventory of blending projects*	More than satisfactory
	2. Blending projects have often been aligned or largely aligned with the priority policies of the 12 beneficiary countries visited (2.3.2)	*Project fiches and interviews with national counterparts in the field* for the 32 visited projects	More than satisfactory
	3. Blending projects have often been aligned to the EU strategies of the 12 visited countries (2.3.3).	*EU Country/Regional Strategy Papers for the 12 countries visited; and project fiches of the 32 visited projects*; complemented by interviews with EUD representatives in the field	More than satisfactory

EQ 3	**Financial efficiency: Has blending used the right level of grants?**		
Evaluation pillar	Strategic Relevance		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 3.1 Existence and application of a calculation methodology for proposing the required grant size	1. Calculation methodologies of the 'right level' of grant exist (I-3.1.1)	*Blending training material*; Interviews with EU and IFI representatives at headquarters	Strong
	2. Specific calculation formulas have most of the time not been applied to determine the grant amounts during the period 2007-2014 (I-3.1.2)	*Project fiches of the 32 projects examined during the field visits and interviews with EU and IFI representatives* at headquarters and in the field; and *statistical data* on the basis of the inventory of blending projects (2007-2014)	Strong
	3. 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 (I-3.1.2)	*New 2014 application form*; *Statistical data* on the basis of the inventory of projects (2007-2014); and *Country notes* and in particular: *interviews with EU and IFI representatives* at headquarters and in the field and *project fiches* review of the 32 projects examined during the field visits	Strong
JC 3.2 Extent to which blending generated financial leverage	1. 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)	*Statistical data* (inventory of blending projects; and for 40 projects sampled during the desk phase; including multi-grant projects); Survey results; EU guidelines for blending operations, 2015.	Strong
	2. 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 (I-3.2.2)	*Project documents and interviews* with representatives from the IFIs and the EU in headquarters and in the field, as well as with beneficiaries for the 32 visited projects	More than satisfactory
JC 3.3 Effects of blending on the EU development 'footprint'	1. Blending offered the EU opportunities to increase its potential 'footprint' or 'sphere of policy influence' in global development assistance (I-3.3.1 & I-3.3.2)	*Statistical data* (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); complemented by *interviews* in headquarters and in the field	More than satisfactory

EQ 4	Instruments: To what extent has the appropriate blending instrument or mix of instruments been selected?		
Evaluation pillar	Added Value		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 4.1 TA was used in situations where there was a clearly identified need for it	1. The use of the TA instrument was in most cases well justified and in some cases essential for the success of the blending projects (4.1.1)	*Interviews with national partners* and *project application forms,* project monitoring and review reports for 15 projects from the sample that had pure TA: survey of delegation staff. All these sources pointed to TA being well justified.	Strong
	2. There is a reluctance to use loan funds for TA (4.1.1)	*Interviews with national partners*, project application (loans not used for TA), project monitoring and review reports.	Strong
	3. The quality benefits of TA are associated with application of the IFI standards rather than the availability of grants (4.1.1)	*Interviews with EU delegations and IFIs*	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)
	4. For complex infrastructure projects the TA instrument was often used to ensure a professional project management from feasibility to project completion.	*Project monitoring and review reports and interviews with partners in the projects visited*	Strong
	5. 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 (4.1.1)	As above	More than satisfactory
	6. In majority of cases there is strong evidence of TA being partner owned and demand (4.1.2)	*Interviews with national partners*, project monitoring and review reports	Strong
	7. As well as contributing to reforms and institutional change the TA instrument also supported the longer term sustainability of the projects (4.1.2)	Same as above	Strong
	8. The immediate benefits of the TA in terms of ensuring sound project management including procurement, design and construction supervision are clearly evident (4.1.3)	*TA consultancy reports, project monitoring and review reports*: interviews with national partners; interviews with EU delegations; Interviews with IFIs	Strong
	9. 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 (4.1.3)	*Project monitoring and review reports: interviews with national partners;* project application forms, interviews with EU delegations; Interviews with IFIs	More than satisfactory
JC 4.2 Interest rate subsidies and investment grants were used	1. 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	*Statistical inventory information, IMF/DSF l*	Strong
	2. There are also some cases where it appears that a grant was	*Project application forms*, project monitoring and review reports:	More than satisfactory

EQ 4	Instruments: To what extent has the appropriate blending instrument or mix of instruments been selected?		
in situations where there was a clearly identified need for them	needed before the government or sub-national borrower would accept the project (4.2.1)	interviews with national partners; interviews with EU delegations; Interviews with IFIs	
	3. 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 (4.2.1)	*Interviews with national partners; interviews with EU delegations*	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)
	4. Relatively large grants used for piloting new approaches provided a technical demonstration effect but potentially reduced the replicability and scaling up potential (4.2.1)	*Project application forms*, project monitoring and review reports	Same as above
	5. The joint use of grant and TA instruments is common and has provided a combination of benefits (4.2.2)	*Project application forms*, project monitoring and review reports	Strong
	6. 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 (4.2.2)	*Project monitoring and review reports*: interviews with national partners; interviews with EU delegations	Strong
	7. 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 (4.2.2)	*Project application forms*, Interviews with IFIs	More than satisfactory
JC 4.3 Guarantees and risk capital were used in situations where there was a clearly identified need for them	1. Guarantees and risk capital have been used less than the other instruments (4.3.1)	*Inventory information and analysis*	Strong
	2. The justification provided for using loan guarantee and risk capital instruments is generally convincing (4.3.1)	*Project application forms,* project monitoring and review reports: interviews with national partners; interviews with EU delegations; Interviews with IFIs	More than satisfactory
	3. The potential downside of loan guarantee and risk capital is not usually considered (4.3.1)	*Project application forms*, project monitoring and review reports	More than satisfactory
	4. Projects that used loan guarantee and risk capital instruments in combination with TA brought additional advantages (4.3.2)	*Interviews with national partners;* project application forms, project monitoring and review reports: interviews with EU delegations; Interviews with IFIs	More than satisfactory
	5. The benefits evident in terms of improving access to finance of small borrowers and provision of longer loan tenures indicate that the chosen instruments have been well selected (4.3.2)	*Project monitoring and review reports*: interviews with national partners; interviews with EU delegations; Interviews with IFIs, interviews with beneficiaries.	More than satisfactory

EQ 5	**Policy reforms: To what extent have blended projects contributed to leverage policy reforms in beneficiary countries?**		
Evaluation pillar	Added Value		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 5.1 Regulatory and institutional reforms have been implemented in the sectors supported by blended projects	1. 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 (5.1.1 & 5.1.2)	*Laws passed in the countries; Press statements*, *Sector reforms adopted by the countries*; *EUD and IFI Country level strategies*; *Project identification documents (*Project application forms, Feasibility studies); Project monitoring and evaluation reports; *Interviews with EU staff and national partners.*	Strong
	2. 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 (5.1.1)	*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	Strong
	3. These reforms processes were lengthy, notably due to institutional and political bottlenecks (5.1.1 & 5.1.2)	*Laws passed in the countries; Press Statements; Sector reforms adopted by the countries; EUD and IFI Country Level Strategies, Project identification documents (*Project application forms, Feasibility studies); *Project monitoring and evaluation reports; Interviews with EU staff and national partners*	More than satisfactory
	4. 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 (5.1.1 & 5.1.2)	*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*	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	1. 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 (5.2.1)	*Project application forms, project monitoring and progress reports* for 12 projects focusing on policy reforms; *Interviews with IFIs, EUD and national partners*	Strong
	2. 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 (5.2.3)	*Interviews with IFIs, EUD and national partners; Country level strategies;* Project application forms for 12 projects	More than satisfactory
	3. Blending often accompanied sector policy reforms in the beneficiary countries but was not the main contributing factor (5.2.4, I-5.2.5)	*Project monitoring and progress reports; interviews with IFIs, EUDs and national partners;* and *Survey to EUDs*	More than satisfactory
JC 5.3 Extent to which the TA	1. The studies realized with the TA provided through blending often underpinned regulatory and institutional reforms (5.3.1)	*Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners* for 12	Strong

EQ 5	Policy reforms: To what extent have blended projects contributed to leverage policy reforms in beneficiary countries?		
provided through blending has been a contributory factor in promoting sector reforms in beneficiary countries		projects supporting policy reforms	
	2. 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 (5.3.2)	*Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners* for 12 projects supporting policy reforms	Strong
	3. 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 (5.3.3)	*Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners* for 12 projects supporting policy reforms	More than satisfactory
	4. Advisory/capacity building activities often accompanied sector policy reforms in the beneficiary countries but were not the main contributing factor to policy development (5.3.4, 5.3.5)	*Project application forms, project monitoring and progress reports; Interviews with IFIs, EUDs and national partners*; Sector strategies	4. More than satisfactory

EQ 6	**Quality: To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?**		
Evaluation pillar	Added Value		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 6.1 Robust feasibility studies ensured identification of beneficiary needs plus potential economic, environmental and social impacts (and, where appropriate, mitigation measures)	1. 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 (6.1.1)	*Project feasibility studies (for the sample projects*), project application forms, other project documentation, inventory information	More than satisfactory
	2. Although the feasibility and other studies usually identified risks, the process was sometimes superficial with little identification of potential mitigation measures (6.1.1, 6.1.5)	*Project feasibility studies (for the sample projects) backed up by interviews with national partners,* project application forms, other project documentation, questionnaire	More than satisfactory (I-6.1.1); Indicative but not constructive (I-61.1.5)
	3. 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 (6.1.1)	*Project feasibility studies (for the sample projects*), Project application forms, other project documentation, questionnaire, inventory information	More than satisfactory
	4. 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 (6.1.2)	*Project feasibility studies (for the sample projects*), project application forms, other project documentation, questionnaire, inventory information	More than satisfactory
	5. All projects examined baseline data for monitoring of implementation progress and delivery of expected outputs and outcomes of the project (6.1.3)	*Project feasibility studies (for the sample projects) with additional reference in interviews with* EUDs, project application forms, other project documentation , questionnaire	Indicative but not conclusive
	6. 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 (6.1.4)	*Project reporting, monitoring review and, where available, evaluation reports (for the sample projects),* Project application forms, inventory information.	Strong
	7. 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) (6.1.6)	*ESIAs/ESMPs (for the sample projects)*, project application forms, other project documentation, inventory information.	Indicative but not conclusive
JC 6.2 Detailed designs and specifications in accordance with international best practices provided practical, cost-effective, good	1. Most, but not all designs and specifications for blending projects are in accordance with international practices. Although specific technical (and safety) audits have not been documented (6.2.3)	*Detailed designs (for the sample projects),* project application forms, other project documentation, inventory information.	Indicative, but not conclusive
	2. All blending projects examined have complied with national (and international) environmental licensing requirements (and land appropriation and resettlement regulations as required by IFIs) (6.2.4)	*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	Strong
	3. Procurement processes have followed international practices	*Procurement reports (including tender evaluation reports where*	Strong

EQ 6	Quality: To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?		
quality outputs delivering specified and sustainable levels of service (including preparation of ESMPs)	(6.2.1)	*available) for the sample projects,* project monitoring and review report, other project documentation (procurement reports)	
	4. There is evidence of adoption of innovative structures and technology (6.2.2)	*Detailed designs,* project application forms, other project documentation, interviews with national partners	More than satisfactory
	5. Most blending projects have been of good quality (6.2.5)	*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	More than satisfactory
JC 6.3 Effective QA and QC measures undertaken during the course of construction	1. 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 (6.3.1)	*Project monitoring and, where available, evaluation reports (for the sample projects)*	Indicative but not conclusive
	2. However, despite such supervision cost and time over-runs have occurred (6.3.2)	*Project monitoring reports (for the sample projects)*, interviews with national partners, EUDs and IFIs, questionnaire	Strong
	3. ESIAs, ESMPs and, where appropriate, RAPs, have been produced for all blending projects sanctioned (6.3.3)	*ESIAs/ESMPs (for the sample projects),* project application forms, other project documentation (ESIAs/ESMPs), project monitoring reports, interviews with national partners and EUDs	More than satisfactory
	4. Performance monitoring is in place for all projects scrutinized (6.3.4)	*Project monitoring and, where available, evaluation reports (for the sample projects)s*	More than satisfactory
	5. Overall blending does contribute to the effectiveness of quality issues, especially as regards environmental and social issues (6.3.5)	*Project monitoring and, where available, evaluation reports (for the sample projects),* , other project documentation (detailed designs)	Indicative but not conclusive
JC 6.4 Measures put in place to ensure effective operation and maintenance	1. 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 (6.4.2, 6.4.3, 6.4.4)	*Feasibility studies including O&M plans (for the sample projects)* Project application forms, project monitoring and evaluation reports, questionnaire, other project documentation	6.4.2 & 6.4.3 Indicative but not conclusive; 6.4.4: Strong
	2. However, partner government commitments (regarding	*Feasibility studies including O&M plans (for the sample*	More than satisfactory

EQ 6	Quality: To what extent has blending delivered better quality projects in terms of relevance, efficiency and effectiveness?		
	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 (6.4.1)	*projects) backed up by interviews with national project partners and EUDs,* project application forms, project review and evaluation reports, interviews with IFIs, questionnaire	
	3. The role of (policy) dialogue with partner governments/clients is often crucial for delivery of agreed commitments (6.4.4)	*Interviews with national partners and EUDs* and IFIs, questionnaire	Strong
	4. Although IFI 'due diligence' has been applied to operations and maintenance plans for blending projects effectiveness of such plans is not proven (6.4.5)	*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)	Indicative but not conclusive
JC 6.5 A higher project quality can be attributed to blending	1. 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 (6.5.1)	*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	More than satisfactory
	2. Such quality has arisen from insistence of IFIs in adoption and implementation of international standards and norms (6.5.1)	*Interviews with national partners, EUDs and IFIs*, questionnaire	More than satisfactory
	3. 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 (6.5.2)	*Interviews with national partners, and EUDs,* interviews with IFIs, questionnaire	More Indicative but not conclusive

EQ 7	**To what extent has blending contributed to improving access to finance for MSMEs?**		
Evaluation pillar	Added Value		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 7.1 Blending has increased the capacity of financial intermediaries to provide financial services to MSMEs	1. 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 (7.1.1, 7.1.2)	*Interviews with IFIs and partner financial intermediaries*, progress reports, projects application forms,	Strong
	2. This increased capacity has been reflected in the trends observed in terms of number and volumes of loans provided to MSMEs (7.1.3 -7.1.6)	*Progress reports*, interviews with IFIs and partner financial intermediaries, financial statements, projects application forms,	Strong
	3. There are also cases were blending projects have contributed to have financial intermediaries revise their strategies towards MSMEs (7.1.3 - 7.1.6)	*Interviews with IFIs and partner financial intermediaries*, financial statements	More than satisfactory
	4. 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 (7.1.3 - 7.1.6).	*Interviews with IFIs and partner financial intermediaries*, progress reports	More than satisfactory
JC 7.2 Blending improved the capacity of MSMEs to deal with financial intermediaries	1. There is evidences that EU grants were directly instrumental in improving MSMEs capacity to deal with financial intermediaries (7.2.1)	*Interviews with IFIs*, partner financial intermediaries and MSMEs managers	More than satisfactory
	2. The impact of blending on financial literacy levels was however limited (7.2.3)	*Interviews with MSMEs managers*, IFIs and partner financial intermediaries	More than satisfactory
	3. There is also limited evidences of blending impacts on take up rates of guarantees and collateral products (7.2.4).	*Interviews with IFIs, partner financial intermediaries* and MSMEs managers	More than satisfactory
JC 7.3 Each blending instrument has had a specific contribution to the improvement of MSMEs' access to finance	1. Each instrument has had a specific contribution in terms of reducing finance barriers for MSMEs (7.3.1)	*Interviews with partner financial intermediaries*, IFIs, and MSMEs managers Project application forms, progress reports,	More than satisfactory
	2. The extent to which blending have contributed to reduce finance barriers for MSMEs has been mixed among instruments (7.3.2 – 7.3.5)	*Survey to EUDs*, interviews with IFIs, partner financial intermediaries and MSMEs managers	More than satisfactory
	3. When available, the guarantee mechanism was perceived to have a higher impact on improving MSMEs access to finance compared to TA (7.3.5).	*Interviews with partner financial intermediaries*, IFIs, and MSMEs managers	More than satisfactory

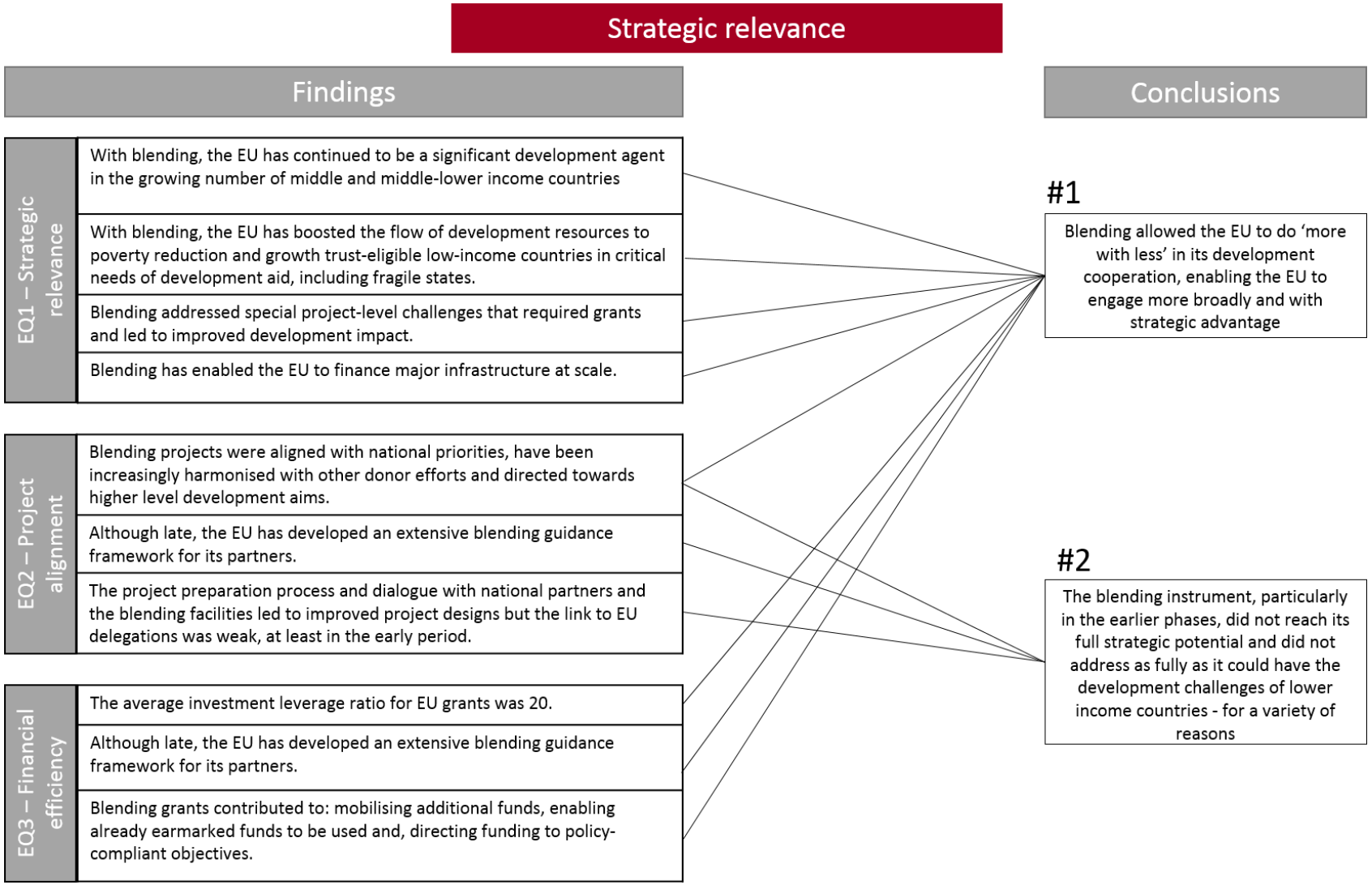
EQ 8	Aid effectiveness and visibility: To what extent have blended projects promoted coordination between European aid actors, lowered aid transaction costs and enhanced visibility of EU aid?		
Evaluation pillar	Added Value		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
JC 8.1 Extent to which blended projects have enabled effective cooperation and coordination between EU actors, beneficiaries and IFIs	1. 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 (8.1.1, 8.1.2, 8.1.6)	*Project application forms*, project monitoring and progress reports; *Interviews with EUDs, IFIs and national partners*	Strong
	2. The evolution of blending decision-making processes in 2014 increased cooperation between the EU and the IFIs (8.1.2)	*General-level documentation on blending*; Interviews with EU HQ	More than satisfactory
	3. Blending, working in combination with the MRI, has shown that it can lead to strengthened donor cooperation during project implementation (8.1.3)	*General-level documentation on blending*; Inventory of interventions; Interviews with EU HQ and IFIs HQ	Strong
	4. The in-depth review of the selection of project shows that donor coordination was often satisfactory during implementation (8.1.3 & 8.1.4)	*Project monitoring and progress reports; Interviews with EUDs, IFIs and national partners*	More than satisfactory
JC 8.2 Extent to which blended projects have contributed to lower the transaction costs of providing aid to beneficiary countries	1. The blending institutional set-up has not led to the benefits expected in terms of reduced transaction costs for beneficiaries (8.2.1-8.2.3) 2.	*Interviews with EUDs, IFIs and national partners;* Project application forms, project monitoring and progress reports	More than satisfactory
	3. 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 (8.2.2)	*Interviews with EUDs, IFIs* and national partners; *Survey results;* Project application forms, project monitoring and progress reports	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	1. Until 2014, blended projects often lacked a comprehensive communication and visibility strategy and action plan (8.3.1-8.3.3)	*General-level documents*; *Project application forms*, project monitoring and progress reports; Interviews with EUDs, IFIs and national partners	Strong
	2. Visibility requirements for blending operations became more demanding and structured with the 2014 blending governance changes.	*General-level documents*; *Project application forms*; Interviews with EU and IFIs	More than satisfactory
	3. The visibility of the EU in blended projects remained limited (8.3.4)	*Project monitoring and progress reports for 23 projects examined in depth; Interviews with EUDs, IFIs and national partners; Survey results;* General-level documents	More than satisfactory

EQ 9	**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?**		
Evaluation pillar	Results		
Judgement Criteria	**Summary response (indicator)**	**Source of information**	**Quality of evidence**
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	1. The design of blended projects was sound overall, with some caveats (9.1.1, 9.4.1, 9.7.1)	*Feasibility studies; project application forms; identification documents; EU financing agreements for 21 projects examined in-depth*; progress and final reports; interviews with EUD, IFIs and national partners	Strong
	2. Blended projects generally targeted strategic opportunities and challenges across regional, country and/or local levels (9.1.2, 9.4.2, 9.7.2)	*Feasibility studies; project application forms; identification documents; EU financing agreements for 21 projects examined in-depth*; progress and final reports; interviews with EUD, IFIs and national partners	Strong
	3. Blending projects targeted more environmental objectives than non-blending projects, and particularly climate change mitigation (9.4.1)	*Statistical analysis of the Rio markers on climate change mitigation and climate change adaptation* made for the visited countries	More than satisfactory
	4. Until end 2013, the design of blending projects generally did not have a strong and compelling pro-poor targeting (9.1.3, 9.1.4, 9.4.3, 9.4.4, 9.7.3, 9.7.4)	*Project application forms & EU financing agreements for 21 projects examined in-depth*; General-level studies on linkages between public infrastructure investment and economic growth and poverty alleviation; progress and final reports; interviews with EUD, IFIs and national partners	Strong
	5. Blending projects examined in depth generally show a limited pro-poor dimension (9.1.3, 9.1.4, 9.4.3, 9.4.4, 9.7.3, 9.7.4)	*Project application forms & EU financing agreements for 21 projects examined in-depth*; *progress and final reports; interviews with EUD, IFIs and national partners*	More than satisfactory
	6. The project design process put increased attention on poverty related issues with the changes in the blending guidance framework since 2014 (9.1.3, 9.1.4, 9.4.3, 9.4.4, 9.7.3, 9.7.4)	*EUBEC reports; application form templates and guidelines*; Interviews with EU staff and IFIs in headquarters	More than satisfactory

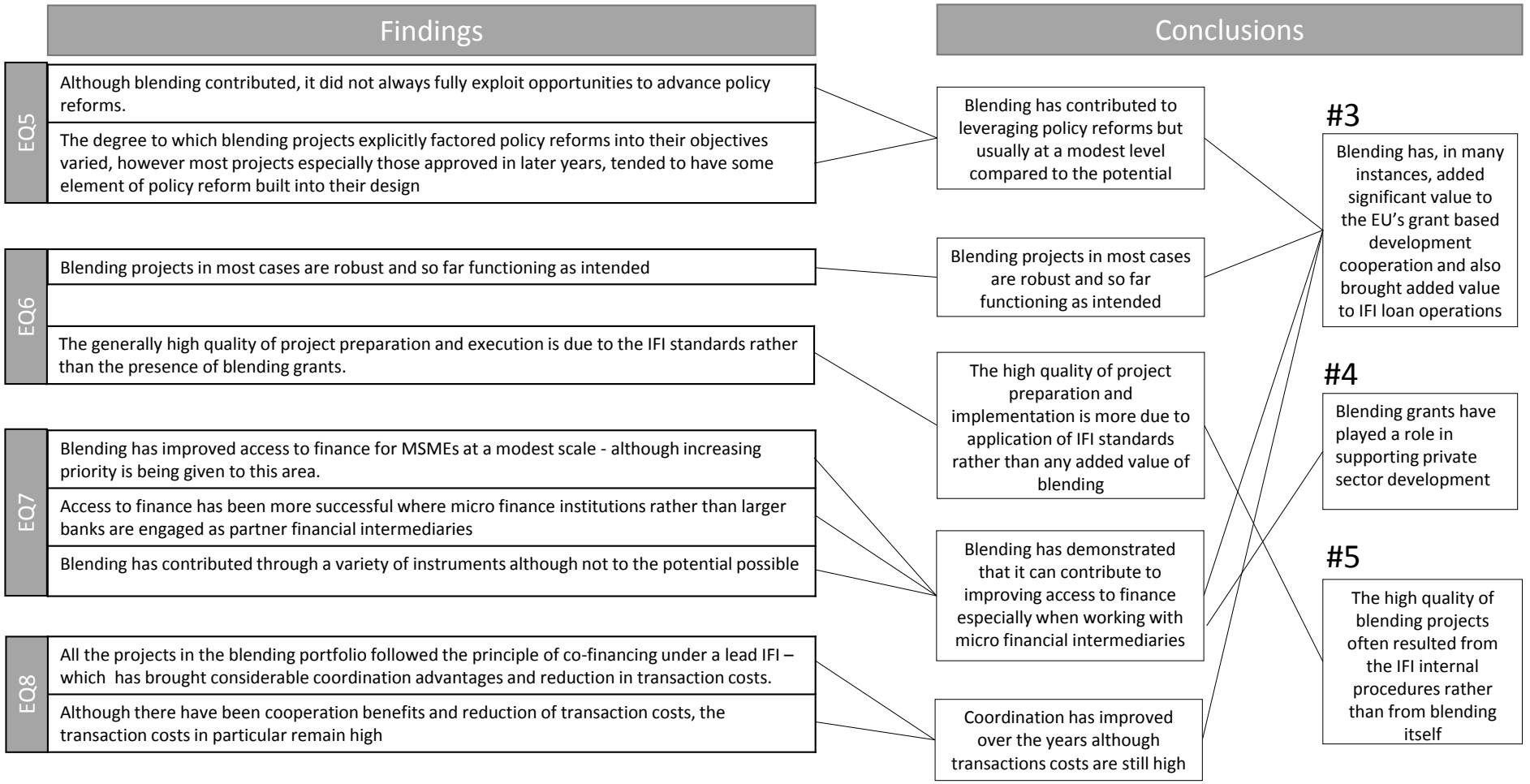
EQ 9	**To what extent have the projects funded through blending contributed to development outcomes in the infrastructure-related sectors, climate change and private sector development and in how far have they benefited the poor and disadvantaged groups?**		
JC 9.2, JC9.5, JC9.8 Blended projects have been implemented as planned in the design phase	1. In more than half the cases reviewed, the implementation of blending projects suffered setbacks that delayed the achievement of project milestones (9.2.1, 9.2.2, 9.5.1, 9.5.2, 9.8.1, 9.8.2)	Feasibility studies; *progress and monitoring reports; evaluations and mid-term reviews for 21 projects examined in detail*; interviews with EUD, IFIs and national partners	Strong
	2. 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	Feasibility studies; *progress and monitoring reports; evaluations and mid-term reviews*; interviews with EUD, IFIs and national partners	Strong
	3. 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	*Interviews with EUD, IFIs and national partners;* Feasibility studies; progress and monitoring reports; evaluations and mid-term reviews;	More than satisfactory
	4. In almost all cases reviewed, blended projects achieved (or were likely to achieve) the planned outputs within the costs envisaged, though often with delays (9.2.3, 9.2.4, 9.5.3, 9.5.4, 9.8.3, 9.8.4)	*Progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners;* feasibility studies	More than satisfactory
JC 9.3, JC 9.6, JC 9.9 Blended projects are likely to deliver development results	1. The measurement of (likely) development results is constrained by the type of reporting carried out (9.3.1, 9.3.2, 9.3.3, 9.6.1, 9.6.2, 9.6.3, 9.9.1, 9.9.2, 9.9.3)	*Progress and monitoring reports; evaluations and mid-term reviews for 21 projects examined in depth*; interviews with EUD, IFIs and national partners	Strong
	2. 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 (9.3.1, 9.3.2, 9.3.3)	*Progress and monitoring reports; evaluations and mid-term reviews for nine (near-) completed projects examined in depth*; interviews with EUD, IFIs and national partners; feasibility studies	More than satisfactory
	3. Beneficiaries generally used with satisfaction the outputs achieved by climate change and PSD related projects (9.6.1, 9.6.2, 9.6.3)	*Progress and monitoring reports; evaluations and mid-term reviews for eight projects examined in depth*; interviews with EUD, IFIs and national partners	More than satisfactory
	4. Infrastructure-related (near-) completed projects have achieved results to the extent initially planned in more than half of the cases examined (9.3.4, 9.3.5)	*Progress and monitoring reports; evaluations and mid-term reviews for nine (near-) completed projects examined in depth and several ongoing ones examined in the field; interviews with EUD, IFIs and national partners*;	More than satisfactory
	5. 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 (9.6.4, 9.6.5)	*Progress and monitoring reports; evaluations and mid-term reviews for six projects examined in depth; interviews with EUD, IFIs and national partners*	More than satisfactory
	6. Some of the climate change related projects also have the potential for wider socio-economic impact (9.6.4, 9.6.5)	*Progress and monitoring reports; evaluations and mid-term reviews for six projects examined in depth; interviews with*	More than satisfactory

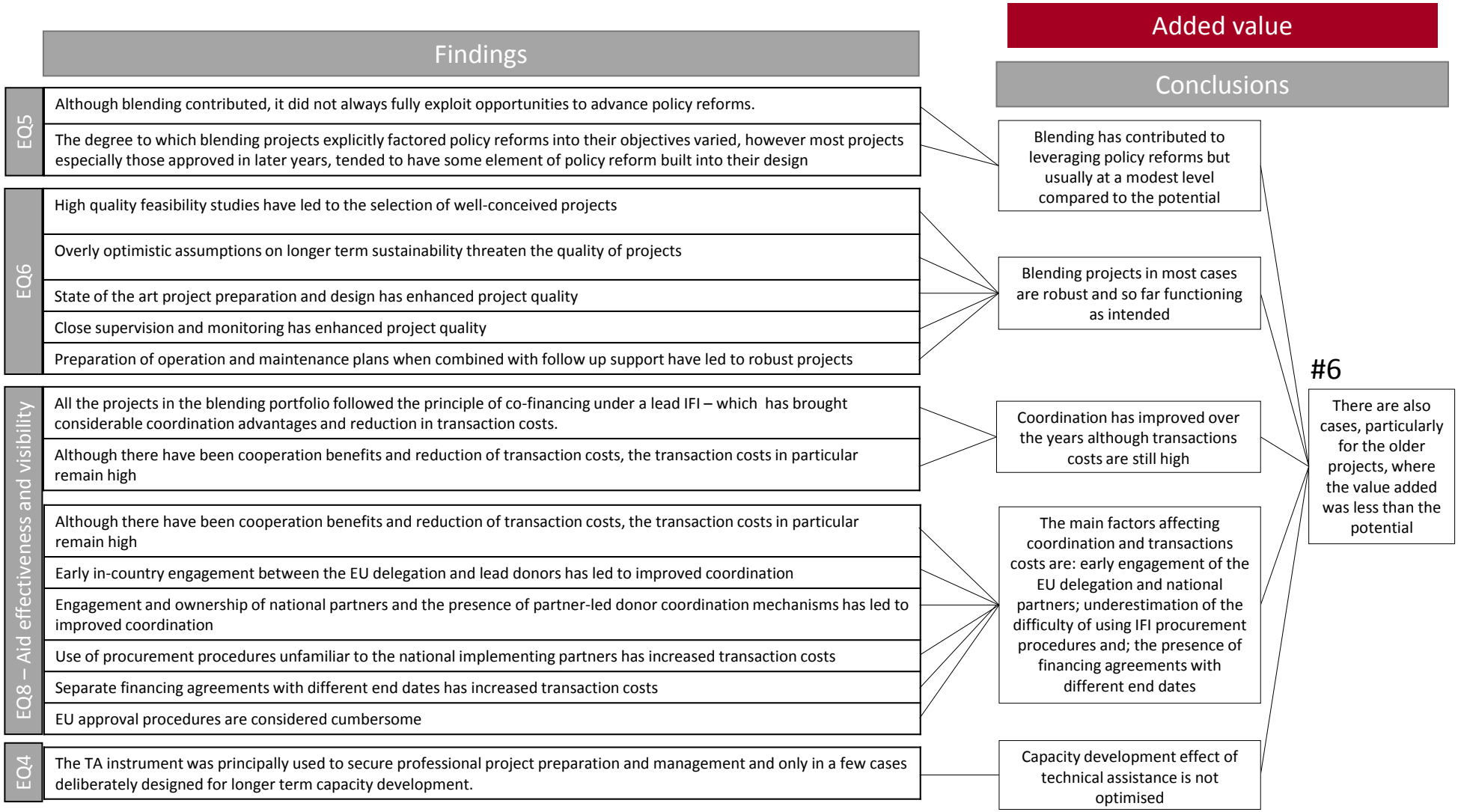
EQ 9	**To what extent have the projects funded through blending contributed to development outcomes in the infrastructure-related sectors, climate change and private sector development and in how far have they benefited the poor and disadvantaged groups?**		
		EUD, IFIs and national partners	
	7. For 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 (9.9.4 & 9.9.5).	*Progress and monitoring reports; evaluations and mid-term reviews for two projects examined in depth; interviews with EUD, IFIs and national partners*	More than satisfactory
JC 9.10 Extent to which blended projects are likely to contribute to job creation in partner countries	1. Blended projects generally did not aim at creating jobs (9.10.1)	*Project application forms & EU financing agreements for 21 projects examined in depth*	Strong
	2. The (likely) contribution of blended projects to job creation remained modest during/after implementation (9.10.2)	*Progress and monitoring reports; evaluations and mid-term reviews; interviews with EUD, IFIs and national partners*	More than satisfactory

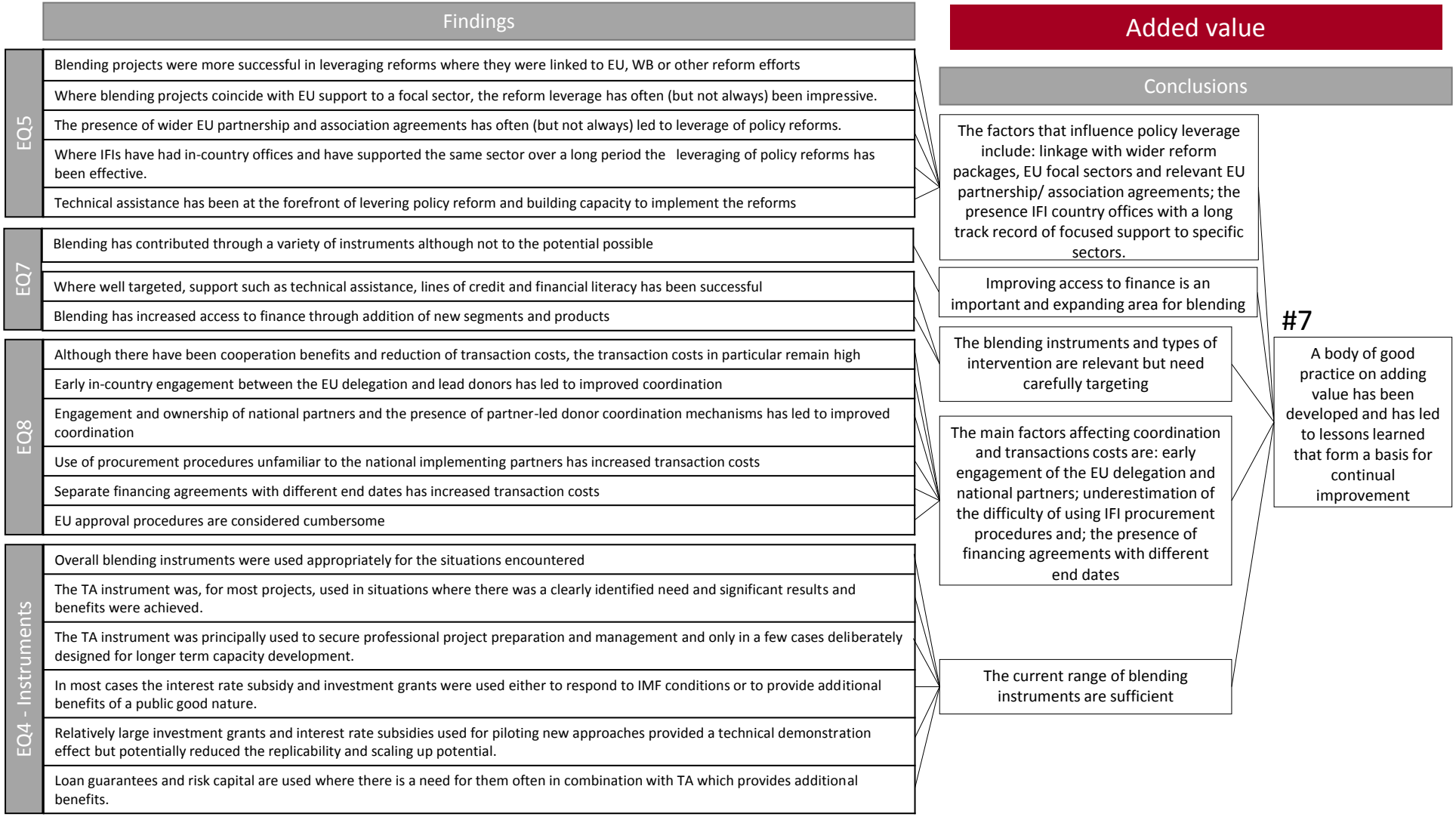
Annex A2: Link between findings and conclusions

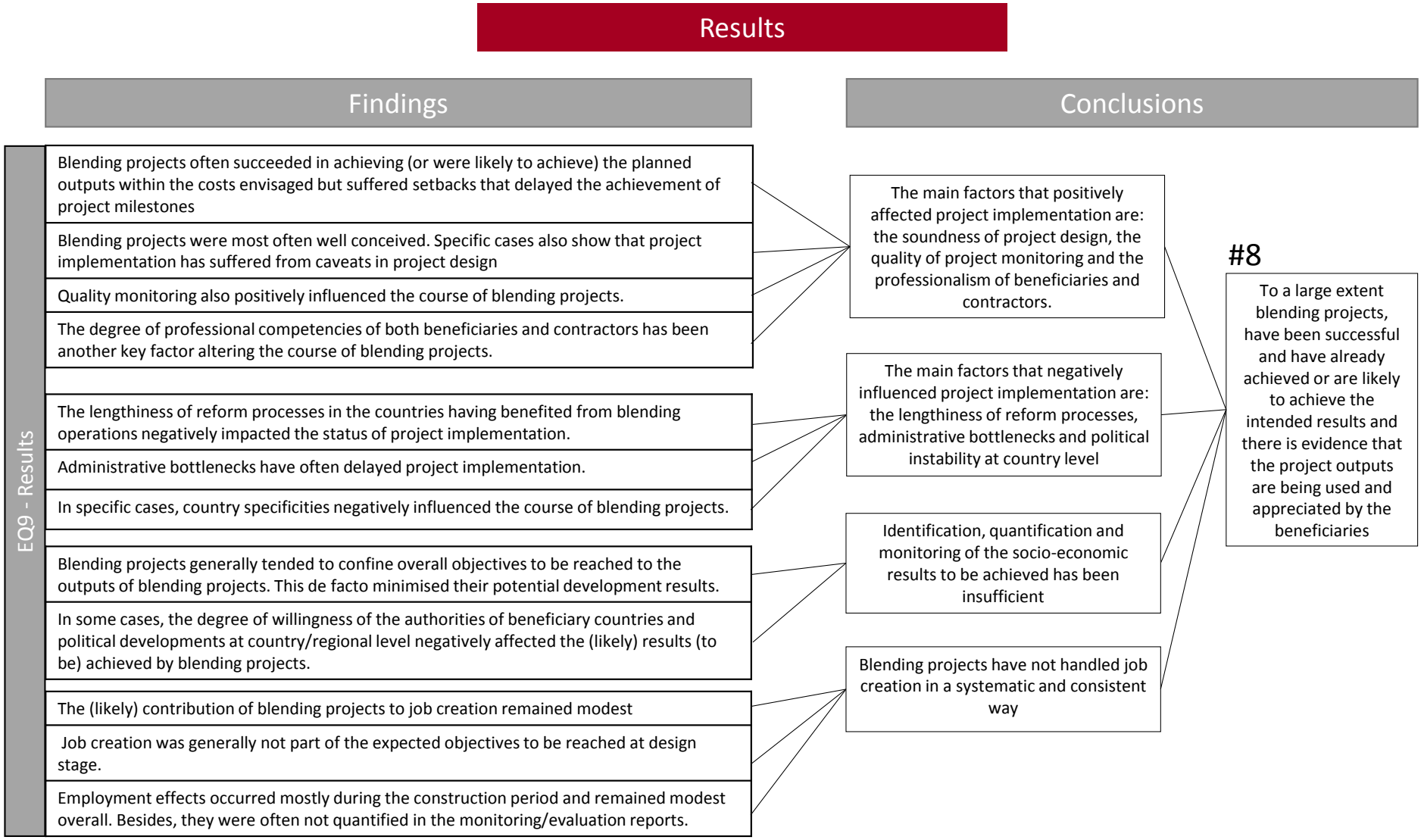


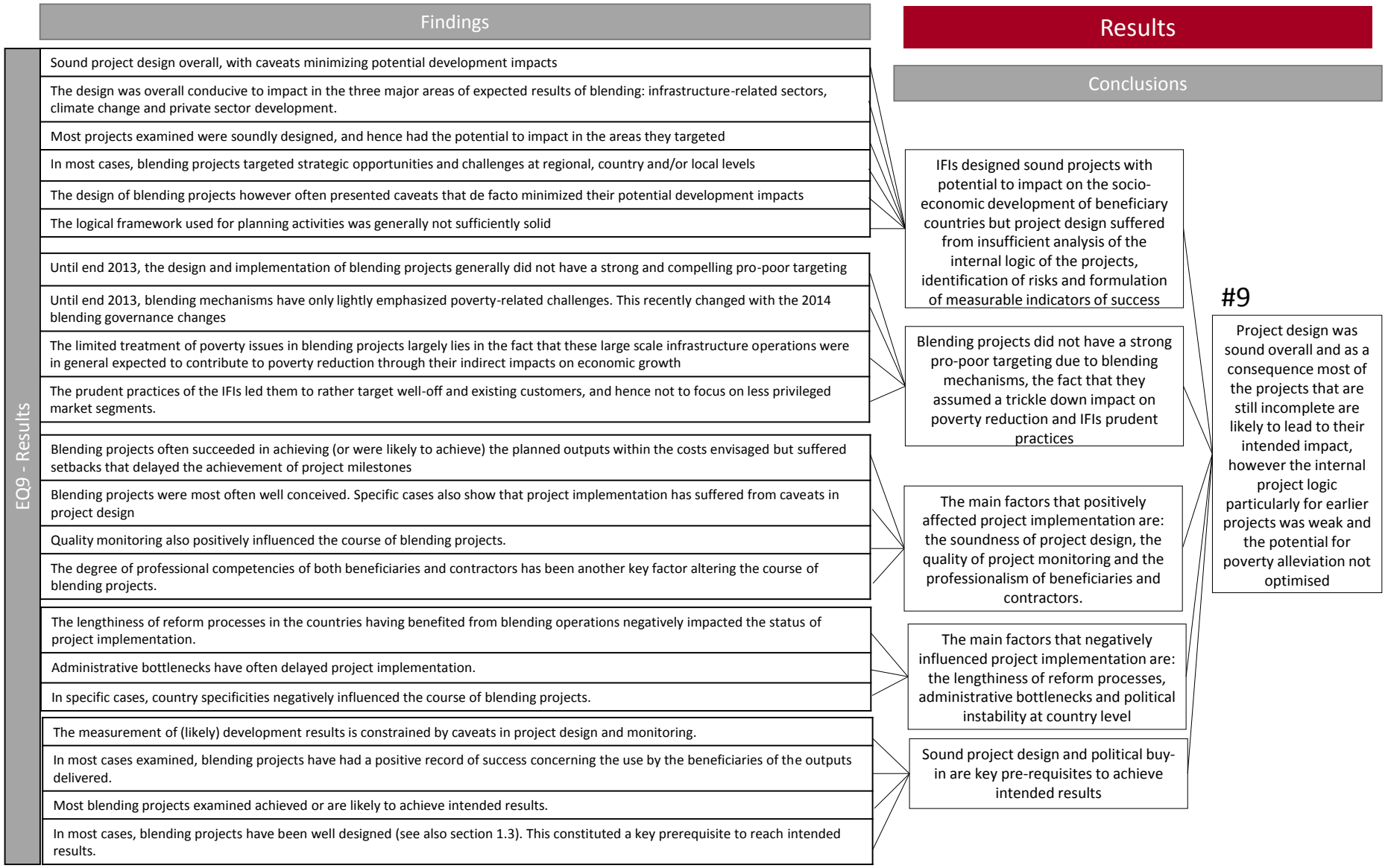
Added value


Findings
EQ5
Although blending contributed, it did not always fully exploit opportunities to advance policy reforms.
The degree to which blending projects explicitly factored policy reforms into their objectives varied, however most projects especially those approved in later years, tended to have some element of policy reform built into their design
EQ6
Blending projects in most cases are robust and so far functioning as intended
The generally high quality of project preparation and execution is due to the IFI standards rather than the presence of blending grants.
EQ7
Blending has improved access to finance for MSMEs at a modest scale - although increasing priority is being given to this area.
Access to finance has been more successful where micro finance institutions rather than larger banks are engaged as partner financial intermediaries
Blending has contributed through a variety of instruments although not to the potential possible
EQ8
All the projects in the blending portfolio followed the principle of co-financing under a lead IFI – which has brought considerable coordination advantages and reduction in transaction costs.
Although there have been cooperation benefits and reduction of transaction costs, the transaction costs in particular remain high
Conclusions
Blending has contributed to leveraging policy reforms but usually at a modest level compared to the potential
Blending projects in most cases are robust and so far functioning as intended
The high quality of project preparation and implementation is more due to application of IFI standards rather than any added value of blending
Blending has demonstrated that it can contribute to improving access to finance especially when working with micro financial intermediaries
Coordination has improved over the years although transactions costs are still high
#3
Blending has, in many instances, added significant value to the EU's grant based development cooperation and also brought added value to IFI loan operations
#4
Blending grants have played a role in supporting private sector development
#5
The high quality of blending projects often resulted from the IFI internal procedures rather than from blending itself


Added value
Findings
Conclusions
EQ5
Although blending contributed, it did not always fully exploit opportunities to advance policy reforms.
The degree to which blending projects explicitly factored policy reforms into their objectives varied, however most projects especially those approved in later years, tended to have some element of policy reform built into their design
Blending has contributed to leveraging policy reforms but usually at a modest level compared to the potential
EQ6
High quality feasibility studies have led to the selection of well-conceived projects
Overly optimistic assumptions on longer term sustainability threaten the quality of projects
State of the art project preparation and design has enhanced project quality
Close supervision and monitoring has enhanced project quality
Preparation of operation and maintenance plans when combined with follow up support have led to robust projects
Blending projects in most cases are robust and so far functioning as intended
EQ8 – Aid effectiveness and visibility
All the projects in the blending portfolio followed the principle of co-financing under a lead IFI – which has brought considerable coordination advantages and reduction in transaction costs.
Although there have been cooperation benefits and reduction of transaction costs, the transaction costs in particular remain high
Coordination has improved over the years although transactions costs are still high
Although there have been cooperation benefits and reduction of transaction costs, the transaction costs in particular remain high
Early in-country engagement between the EU delegation and lead donors has led to improved coordination
Engagement and ownership of national partners and the presence of partner-led donor coordination mechanisms has led to improved coordination
Use of procurement procedures unfamiliar to the national implementing partners has increased transaction costs
Separate financing agreements with different end dates has increased transaction costs
EU approval procedures are considered cumbersome
The main factors affecting coordination and transactions costs are: early engagement of the EU delegation and national partners; underestimation of the difficulty of using IFI procurement procedures and; the presence of financing agreements with different end dates
EQ4
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.
Capacity development effect of technical assistance is not optimised
#6
There are also cases, particularly for the older projects, where the value added was less than the potential


Findings
EQ5
Blending projects were more successful in leveraging reforms where they were linked to EU, WB or other reform efforts
Where blending projects coincide with EU support to a focal sector, the reform leverage has often (but not always) been impressive.
The presence of wider EU partnership and association agreements has often (but not always) led to leverage of policy reforms.
Where IFIs have had in-country offices and have supported the same sector over a long period the leveraging of policy reforms has been effective.
Technical assistance has been at the forefront of levering policy reform and building capacity to implement the reforms
EQ7
Blending has contributed through a variety of instruments although not to the potential possible
Where well targeted, support such as technical assistance, lines of credit and financial literacy has been successful
Blending has increased access to finance through addition of new segments and products
EQ8
Although there have been cooperation benefits and reduction of transaction costs, the transaction costs in particular remain high
Early in-country engagement between the EU delegation and lead donors has led to improved coordination
Engagement and ownership of national partners and the presence of partner-led donor coordination mechanisms has led to improved coordination
Use of procurement procedures unfamiliar to the national implementing partners has increased transaction costs
Separate financing agreements with different end dates has increased transaction costs
EU approval procedures are considered cumbersome
EQ4 - Instruments
Overall blending instruments were used appropriately for the situations encountered
The TA instrument was, for most projects, used in situations where there was a clearly identified need and significant results and benefits were achieved.
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.
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.
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.
Added value
Conclusions
The factors that influence policy leverage include: linkage with wider reform packages, EU focal sectors and relevant EU partnership/ association agreements; the presence IFI country offices with a long track record of focused support to specific sectors.
Improving access to finance is an important and expanding area for blending
The blending instruments and types of intervention are relevant but need carefully targeting
The main factors affecting coordination and transactions costs are: early engagement of the EU delegation and national partners; underestimation of the difficulty of using IFI procurement procedures and; the presence of financing agreements with different end dates
The current range of blending instruments are sufficient
#7
A body of good practice on adding value has been developed and has led to lessons learned that form a basis for continual improvement


Results
Findings
Conclusions
EQ9 - Results
Blending projects often succeeded in achieving (or were likely to achieve) the planned outputs within the costs envisaged but suffered setbacks that delayed the achievement of project milestones
Blending projects were most often well conceived. Specific cases also show that project implementation has suffered from caveats in project design
Quality monitoring also positively influenced the course of blending projects.
The degree of professional competencies of both beneficiaries and contractors has been another key factor altering the course of blending projects.
The lengthiness of reform processes in the countries having benefited from blending operations negatively impacted the status of project implementation.
Administrative bottlenecks have often delayed project implementation.
In specific cases, country specificities negatively influenced the course of blending projects.
Blending projects generally tended to confine overall objectives to be reached to the outputs of blending projects. This de facto minimised their potential development results.
In some cases, the degree of willingness of the authorities of beneficiary countries and political developments at country/regional level negatively affected the (likely) results (to be) achieved by blending projects.
The (likely) contribution of blending projects to job creation remained modest
Job creation was generally not part of the expected objectives to be reached at design stage.
Employment effects occurred mostly during the construction period and remained modest overall. Besides, they were often not quantified in the monitoring/evaluation reports.
The main factors that positively affected project implementation are: the soundness of project design, the quality of project monitoring and the professionalism of beneficiaries and contractors.
The main factors that negatively influenced project implementation are: the lengthiness of reform processes, administrative bottlenecks and political instability at country level
Identification, quantification and monitoring of the socio-economic results to be achieved has been insufficient
Blending projects have not handled job creation in a systematic and consistent way
#8
To a large extent blending projects, have been successful and have already achieved or are likely to achieve the intended results and there is evidence that the project outputs are being used and appreciated by the beneficiaries

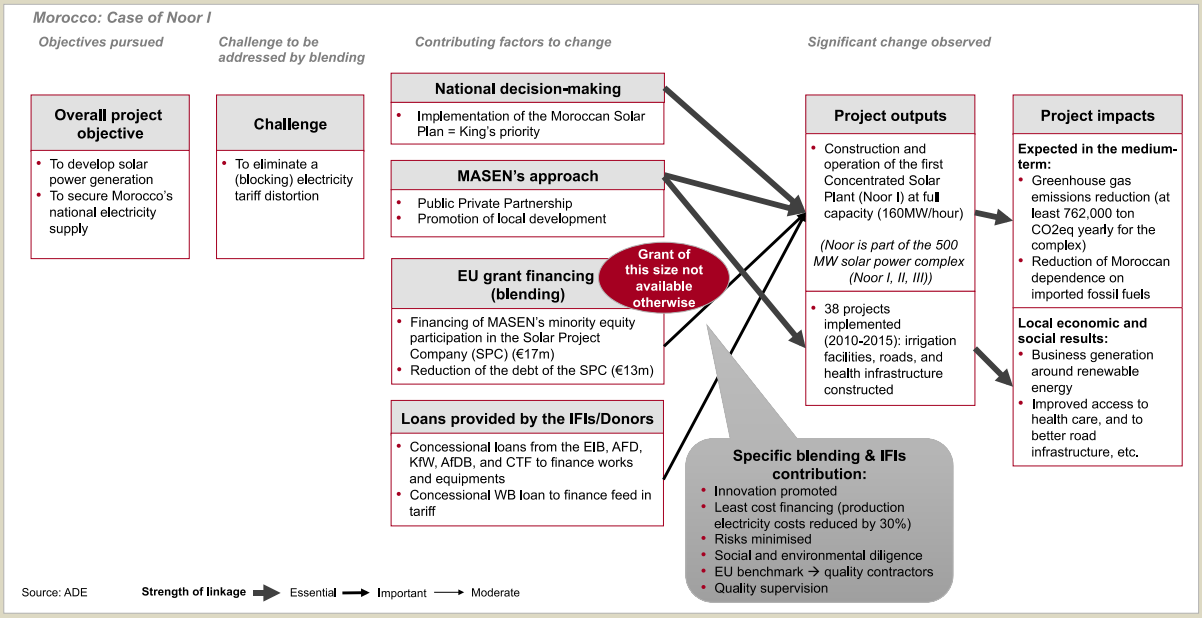

Findings
Results
Conclusions
EQ9 - Results
Sound project design overall, with caveats minimizing potential development impacts
The design was overall conducive to impact in the three major areas of expected results of blending: infrastructure-related sectors, climate change and private sector development.
Most projects examined were soundly designed, and hence had the potential to impact in the areas they targeted
In most cases, blending projects targeted strategic opportunities and challenges at regional, country and/or local levels
The design of blending projects however often presented caveats that de facto minimized their potential development impacts
The logical framework used for planning activities was generally not sufficiently solid
Until end 2013, the design and implementation of blending projects generally did not have a strong and compelling pro-poor targeting
Until end 2013, blending mechanisms have only lightly emphasized poverty-related challenges. This recently changed with the 2014 blending governance changes
The limited treatment of poverty issues in blending projects largely lies in the fact that these large scale infrastructure operations were in general expected to contribute to poverty reduction through their indirect impacts on economic growth
The prudent practices of the IFIs led them to rather target well-off and existing customers, and hence not to focus on less privileged market segments.
Blending projects often succeeded in achieving (or were likely to achieve) the planned outputs within the costs envisaged but suffered setbacks that delayed the achievement of project milestones
Blending projects were most often well conceived. Specific cases also show that project implementation has suffered from caveats in project design
Quality monitoring also positively influenced the course of blending projects.
The degree of professional competencies of both beneficiaries and contractors has been another key factor altering the course of blending projects.
The lengthiness of reform processes in the countries having benefited from blending operations negatively impacted the status of project implementation.
Administrative bottlenecks have often delayed project implementation.
In specific cases, country specificities negatively influenced the course of blending projects.
The measurement of (likely) development results is constrained by caveats in project design and monitoring.
In most cases examined, blending projects have had a positive record of success concerning the use by the beneficiaries of the outputs delivered.
Most blending projects examined achieved or are likely to achieve intended results.
In most cases, blending projects have been well designed (see also section 1.3). This constituted a key prerequisite to reach intended results.
IFIs designed sound projects with potential to impact on the socio-economic development of beneficiary countries but project design suffered from insufficient analysis of the internal logic of the projects, identification of risks and formulation of measurable indicators of success
Blending projects did not have a strong pro-poor targeting due to blending mechanisms, the fact that they assumed a trickle down impact on poverty reduction and IFIs prudent practices
The main factors that positively affected project implementation are: the soundness of project design, the quality of project monitoring and the professionalism of beneficiaries and contractors.
The main factors that negatively influenced project implementation are: the lengthiness of reform processes, administrative bottlenecks and political instability at country level
Sound project design and political buy-in are key pre-requisites to achieve intended results
#9
Project design was sound overall and as a consequence most of the projects that are still incomplete are likely to lead to their intended impact, however the internal project logic particularly for earlier projects was weak and the potential for poverty alleviation not optimised

Annex A3: Blending results, illustrative cases of contribution analysis

To further illustrate the results reached by blending projects and in particular the contribution of the blending grant to address a critical challenge, we present in this annex a contribution analysis highlights through a narrative and a schematic representation for six highly illustrative cases:

- Noor I (ENER/O.SolarPlant/MA #15)
- Beira corridor (TRANS/Corridor/MZ #26)
- Caprivi Interconnector (ENER/C.Intercon/NA-ZM #1)
- EFSE (BANK/EFSE/MC #36)
- SUNREF (ENER/Env.Credit lines/REG #43-44)
- Egypt El Zayt wind farm (ENER/Wind Farm/EG #32).

Case 1: Concentrated Solar Plant (Noor I) in Morocco



Case 2: Beira transport corridor, Mozambique

Mozambique – Beira Corridor

Objectives pursued

Project objectives

Overall Objective
The overall objective of the Beira Transport Corridor (port, rail, road, pipeline) is that it fulfils traffic demands of Sofala, Manica and Tete provinces in Mozambique and of the neighbouring countries Zimbabwe, Zambia, Malawi and Botswana

Project Purpose
The specific objective of the Beira Corridor project, co-financed by EIB, IDA, Danida, ORET and CFM is to re-establish the original transport capacity of the port of Beira and of the Sena and Machipanda railway lines forming part of the Beira Corridor Transport System

Challenge to be addressed by blending

Challenge

- To inject a commercial dimension (by creating a PPP and enabling loan finance under HIPC regime)

Contributing factors to change

Specific blending & IFIs contribution:

- IFI concessional financing only reliable source of funding – project prepared at time few private sector investors would have considered Mozambique as an investment destination. Also the level of risk would have deterred investment in a railway system that had not been functional for >10 years
- AITF support (€29M) represented 4.7% IRS (HIPC country – 35% degree of concessionality)
- Faciltation of investment in coal mining in Tete Province and development of the agricultural sector (by means of heavy haul transport and trade facilitation)
- Potentially transformative project

Significant change observed

Project impacts

- Project goals not achieved
- Project objectives only achieved to limited extent

National decision-making

- GOM embarked upon wide-ranging transport sector reforms – in the railway and ports sub-sectors reforms focussed on private sector involvement in management and operationas of railways and ports in order to mobilise private capital and improve operational efficiency.

CFM approach

- It is difficult to separate the role played by GOM from CFM's role - as 49% minority shareholder CFM as Implementiong Agency had little leverage in influencing project decisions
- Unclear role of CFM as public sector shareholder was a regulator, policy maker, client and operator (CFM played all roles, at times simultaneously

Loans provided by the IFIs/Donors

Rail component		Port component	
Equity & shareholder loans	€15.33M	CFM	€10.18M
IDA	€85.00M	Danida	€ 3.07M
EIB	€42.31M	EIB	€22.63
		ORET	€10.00
Totals	€142.64M		€45.87
Grand total	€188.51M		

EIB financing includes €29M IRS from AITF

Project outputs & outcomes

Outputs
Rail concession with 3 components:

- Rehabilitation, maint. and operation of the 600km Sena Railway (USD 127.5M)
- Improvement, maint. and operation of 317km Machipanda Rail Line (USD 25M)
- Institutional strengthening of CFM (USD 5.5M)

Port component - Dredging of port access channel & refurbishment of 3 vessels

Expected Outcomes
By 2009:

- Freight and passenger traffic reopened on Sena line
- International traffic on Machipanda line increased by 30%
- Link to Malawi railways
- Road link to Zambia at Moatize opened for multi-modal transport to Beira port
- Beira Railway System operating better (fewer temporary restrictions, less locomotive failure and wagon delays, increased staff productivity
- Port capacity re-established

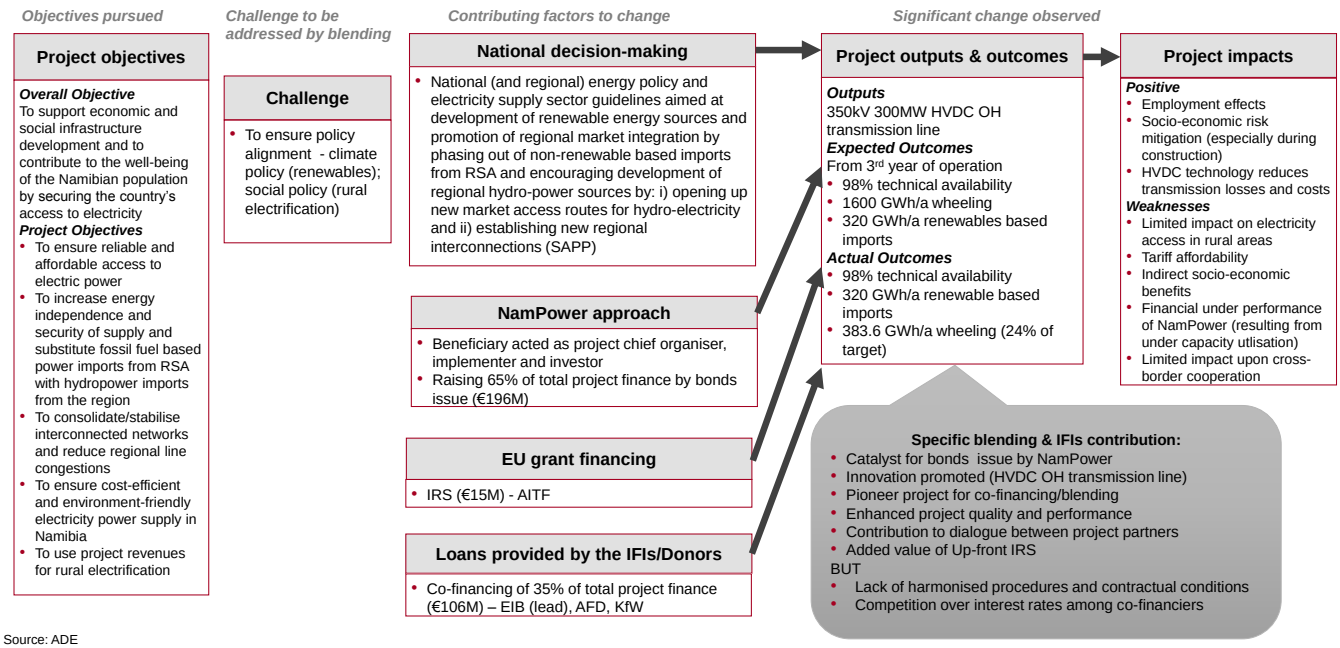
Actual Outcomes

- 25 year concession signed 2004 terminated 2009
- Sena line rehabilitation delayed 2 years
- Technical issues on Sena line remain affecting safety, operations and capacity for carriage of freight and passengers (ie < 1/3 of anticipated traffic)
- Machipanda line deteriorated further due to insufficient maintenance of line and rolling stock
- Most international traffic continues to use Durban port (RSA)
- Institutional strengthening had no significant impact on CFM institutional capacity

Source: ADE

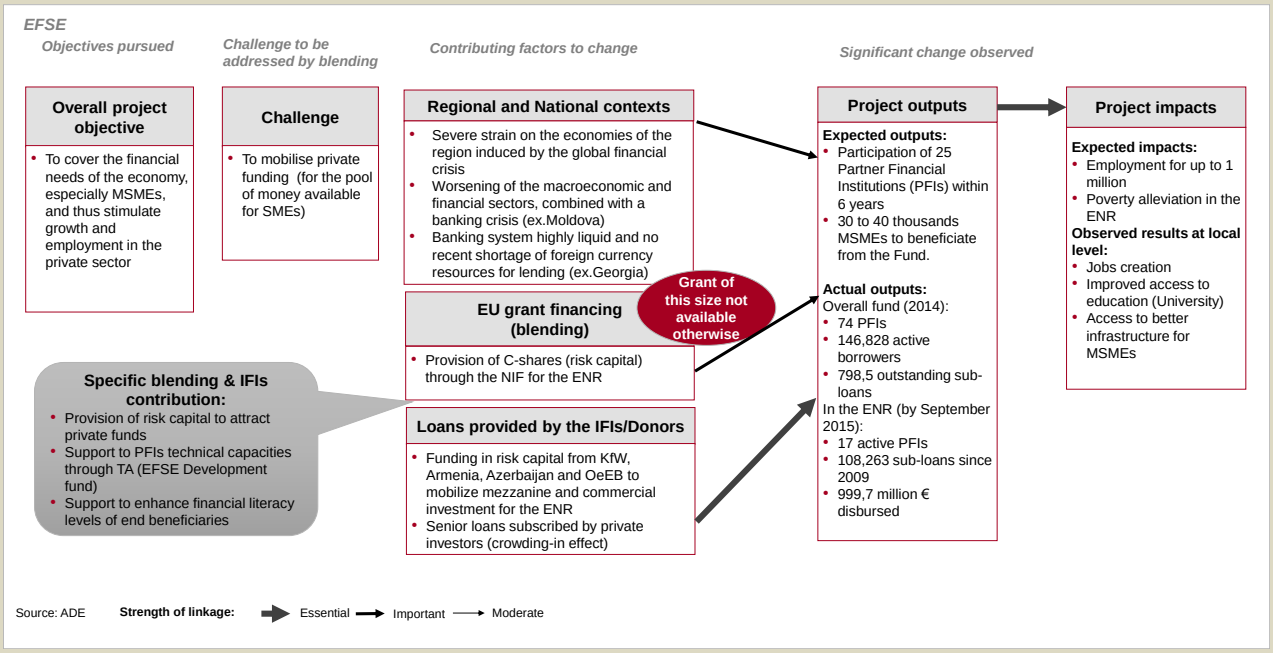
Case 3: Caprivi Link Interconnector, Namibia

Namibia – Caprivi Link Interconnector

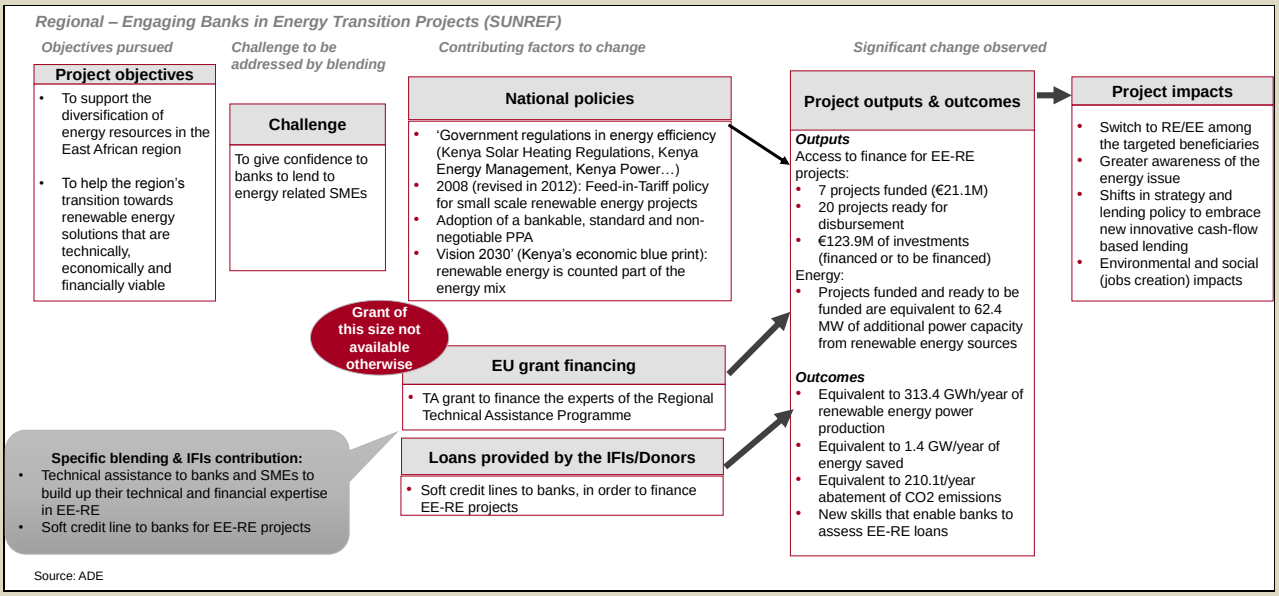


Source: ADE

Case 4: European Fund for Southeast Europe (EFSE), Regional



Case 5: SUNREF, Regional programme (Kenya, Tanzania, Uganda)



Source: ADE

Case 6: El Zayt wind farm, Egypt