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**REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN
PARLIAMENT**

**on the activities of the EU Platform for Blending in External Cooperation (EUBEC)
from August 2014 until end of 2015**

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1. Introduction

The recitals of Decision 1080/2011/EU of the European Parliament and of the Council of 25 October 2011¹ encouraged the Commission (EC) to study the development of an "EU Platform for External Cooperation and Development" with a view to optimising the functioning of mechanisms for the blending of grants and loans in the field of external action. In its report to the Council and the European Parliament of 26 October 2012², the EC proposed setting up the new EU Platform for Blending in External Cooperation (EUBEC), which was subsequently launched as an EC Expert Group on 14 December 2012.

In line with the commitment that the EC will report to the European Parliament and Council, a first report covered the work of the EUBEC since its establishment on 14 December 2012 until end July 2014³. The present second report covers the period from August 2014 until December 2015.

The objective of the EUBEC is to improve the quality and efficiency of EU development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern the EU relations with the different partner countries, notably EU Development, Neighbourhood and Enlargement policies. The EUBEC should provide guidance for the harmonisation of key principles regarding blending activities whilst allowing for differentiation by sectors and regions. It should focus on sectors where financial instruments can be most usefully deployed, within and across geographical regions, and help to strengthen the coherence of blending activities with EU policies.

The EUBEC works through the Policy Group (PG) that is chaired by the EC and composed of representatives of the EU Member States and the European External Action Service (EEAS), with the European Parliament (EP) and the Financial Institutions (FIs) involved in the technical work as observers. Other participants may also be invited as observers. The EC also provides the Secretariat ensuring coordination and communication. The PG met four times in the current reporting period to discuss the technical work, namely on 17 December 2014, 22 June 2015, 2 October 2015 and 6 November 2015.

Technical work is pursued by the EC services, the EEAS, FIs and a number of representatives from Member States, as well as the EP. In the reporting period, two specific Technical Groups (TGs) were established, one focusing on the mobilisation of private sector resources and the other on the fight against climate change. Each concluded with a report and follow-up was ensured through one additional technical level meeting respectively. In addition, a technical meeting on Financing for Development was organized.

The following report provides firstly an update on the structural issues pertaining to the blending facilities: their governance; the measures addressing recommendations by the Court of Auditors; and the involvement of other stakeholders. The report then recaps discussions at technical level and

¹ OJ L 280, 27.10.2011, p. 1.

² Ares(2012)1274079

³ COM(2014)733. Further detailed working documents and reports can be found in the Register of Commission Expert Groups: <http://ec.europa.eu/transparency/regexpert/index.cfm>, in which EUBEC is registered under no. E02852.

at PG level during the reporting period on the blending facilities' contribution to mobilising private sector resources, the fight against climate change and Financing for Development before concluding.

2. Blending as aid delivery mechanism

2.1. Update on governance of EU blending facilities

According to the recommendations expressed by the EUBEC paper on governance of the blending facilities endorsed by the PG on 11 July 2014, EU Blending operations are organised in **blending frameworks** for each relevant financing instrument (DCI, ENI, EDF and IPA), with a single governance structure for each framework. Meetings of the relevant governance bodies should be organised by blending framework. The meetings should be held back to back with the respective financing instruments' Committees, whenever possible.

It was agreed that it should be possible to group several "**facilities**"⁴ under a blending framework in order to be able to better address the different regional and thematic strategic priorities, to increase policy leverage, to increase impact, efficiency and visibility of the EU aid by strengthening coordination to effectively align blending operations with EU policy dialogue and priorities with third-countries and to increase transparency in reporting. An addendum to the "Discussion paper on the future governance of the EU blending facilities" referring to the channelling of thematic funds was discussed and endorsed.

In that sense, the DCI blending framework with the Latin American Investment Facility (LAIF), the Asian Investment Facility (AIF), the Investment Facility for Central Asia (IFCA) and thematic blending operations was set up by Commission Decisions C(2014) 9128 of 04/12/2014, C(2014) 8785 of 26/11/2014, C(2014) 9534 of 16/12/2014 and C(2014) 9451 of 15/12/2014, respectively.

For the European Neighbourhood Instrument (ENI), a blending framework has been set up with the Neighbourhood Investment Facility (NIF) by Commission Decision SI(2008)190 of 14 February 2008, revised by Commission Decision C(2014)5750 of 20 August 2014, and the NIF Trust Fund agreement dated 26 January 2009.

The EDF blending framework is composed of the Africa Investment Facility (AfIF) (Commission Decision C(2015)5210 of 29/7/2015), the Caribbean Investment Facility (CIF) and the Investment Facility for the Pacific (IFP). The Action Documents renewing the CIF and the IFP will be approved in 2016. The new AfIF has a broader sectorial scope in comparison to the old EU-Africa Infrastructure Trust Fund (ITF) and its governance is in line with the rest of the facilities.

It is also possible to create **dedicated Facility Trust Funds** to enable EU Member States or other donors which are interested to provide additional contributions to blending operations under the Facilities. The specific rules applying to the Facility Trust Funds will be determined in the relevant

⁴ These "facilities" have been set-up as financial envelopes and are not separate legal entities.

Facility Trust Fund Agreement. Trust Funds have already been created to support the NIF and the Western Balkans Investment Framework (WBIF).

In order to be fully compliant with the new governance structure, it was also necessary to align the **rules of procedure** of the facilities. It was decided that there will be a set of rules for each one of the EU blending frameworks, with parallel procedures but with the possibility to adapt them to the specific features of the different blending frameworks (e.g. strategic discussions in EDF).

In each one of the blending frameworks, it is foreseen that the **decision-making process** will be organised in a two-level structure with:

- Technical Assessment Meetings, which are chaired by the EC and composed of representatives of the EC services, the EEAS and FIs; and
- Board meetings, chaired by the EC and composed of representatives of the EC services, the EEAS, the EU Member States as voting members, and the Financial Institutions (FIs)⁵ as observers.

Thus, the operations of the blending frameworks, including dedicated Trust Funds, are governed by the Board. The Board is supported by a Technical Assessment Meeting which reviews the FI's draft applications from a technical and financial point of view before they are submitted to the Board. The conclusions of the Board are incorporated in relevant complementary Commission decisions, except for projects funded under the dedicated Trust Fund (which follow the rules set out in the Trust Fund Agreement).

Regarding the **strategic discussions**, in the DCI and ENI blending frameworks, the EC services, the EEAS and the EU Member States hold a regular dialogue on strategic orientations for each Facility with partner countries and relevant regional organisations. As a general principle, the EC services and EEAS will conduct and co-chair strategic discussions at highest appropriate level with Member States, beneficiary countries and relevant regional organisations. Discussions should be held whenever deemed necessary by the Board, normally once a year, to discuss strategic issues, overall orientations and priorities of the Facilities. This dialogue will be based on relevant strategic programming documents that have been adopted in accordance with relevant comitology and democratic scrutiny.

In the context of the European Development Fund (EDF) blending framework, strategic orientations will be discussed with beneficiary countries and/or relevant regional organisations in dedicated meetings⁶, under the ownership principle of EU development cooperation. These discussions will cover regional investment plans and priorities, provide strategic and policy guidance and advice for identification and preparation of the most relevant proposals for blending and for the Board to

⁵ Financial Institutions for the purposes of this document comprise Lead Financial Institutions participating in blending operations and other invited Financial Institutions, including EDFIs (European Development Finance Institutions). Non-European FIs active in a particular region should be invited to attend relevant meetings as observers in technical meetings as well as meetings of the Board.

⁶ These strategic meetings are the regional steering committees set-up in the context of the different Regional Indicative Programmes, the ACP-EU Private Sector Development platform and the Consultative Committee established in the context of the Pan-African Programme.

review the pipeline and formulate an opinion on the most relevant projects for achieving EU objectives.

2.2. Follow-up on external reviews

On 22 October 2014, the European Court of Auditors (CoA) published its Special Report No 16/2014 on *“The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies”*.⁷

Following this publication, exchanges of view were organized on this Special Report in the presence of the CoA and the EC by the EP Committee on Budgetary Control (CONT) on 19 January 2015 and by the EP Committee on Development (CODEV) on 22 January 2015. A second exchange with the EC was organized by CONT on 23 February 2015 and a third one by the CODEV on 6 May 2015.

The Council Working Party on Development Cooperation examined the report in accordance with the provisions laid down in the Council Conclusions on the procedure for examining Special Reports drawn up by the CoA.⁸ On 21 April 2015, the Working Party reached agreement on draft Council Conclusions prepared by the Presidency and Coreper has confirmed the agreement on the text before submitting it to the Council for adoption.

Most of the recommendations made by the CoA have been dealt with by the EC in the context of the EUBEC with:

- the development of a harmonised and improved project application form and its guidance notes;
- the development of a results measurement framework including standard indicators;
- the adoption of a Guidelines document on blending operations;
- a more proactive and closer role of the EU Delegations in identifying and selecting the blending projects;
- a revised new Governance of the blending facilities;
- a streamlined and shortened approval process;
- an extended training programme for EC officials dealing with blending in Brussels and in Delegations;
- and the publication of a short description of each blended project in a dedicated website for visibility purposes⁹.

The EC is still internally discussing the necessary adaptation of its Results Oriented Monitoring (ROM) methodology to the specific characteristics of blending.

The EC is also conducting an evaluation on blending, which is now well underway. Blending is a relatively new instrument which is considered innovative and presenting high potential. At the same time, the instrument attracts increasing interest of a number of European, regional and international stakeholders. There is a clear need to collect more evidence in relation to the degree of its

⁷ This special report is also available on the Court's website: <http://eca.europa.eu>

⁸ Doc. 7515/00 FIN 127 + COR 1

⁹ At https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

effectiveness. The evaluation will make use of the evidence provided by past and incoming evaluations and studies (including the NIF, ITF, WBIF evaluations as well as the Results Measurement study conducted by Cambridge Economic Policy Associates (CEPA) in 2013 for ITF-supported projects) and will avoid duplicating the work already done. The evaluation shall build on what is already known, and strengthen the evidence base in relation to the effectiveness of blending. The evaluation was launched in January 2015 and its work is still ongoing.

3. Technical discussions in the EUBEC

At the **Addis Ababa Summit from 13 - 16 July 2015**, the Addis Ababa Action Agenda (AAAA) was adopted, establishing the move to a new sustainable development paradigm, including aspects of governance, gender, partnerships, and working with the private sector. Many parts of the AAAA were relevant for the EU Blending: employment and decent work for all as a central objective, access to finance for micro, small and medium-sized enterprises (MSMEs), transparent and stable rules and standards and free and fair competition, conducive to achieving national development policies.

In the margins of the Summit the African Union (the AU) and the EU co-organized a side-event on Private sector and Blending that attracted over 200 participants. Two panels dealt with: "Contributing to build a strategic framework for working for, and with, the private sector towards achieving the AU 'Agenda 2063'" and "Catalysing private sector resources and engagement for development through blending, in particular in the agriculture and energy sector".

As the flows of **refugees and migrants** intensified in the course of the year 2015, the EUBEC group identified the importance of the potential contribution of blending to addressing this challenge as an urgent priority, in particular with a view to addressing the root causes of migration. At the Policy Group meeting in November 2015, EUBEC members agreed to exchange relevant information and coordinate on available blending funds in the concerned countries. Financial instruments already in place were explained, and FIs were called to contribute to the best of their ability according to their individual strengths. Going forward, efforts to maintain complementarity will be intensified, with migration set to become a standard point in the Policy Group meetings. The EUBEC group will be an important tool to involve both FIs' expertise and Member States' policy guidance as the EU formulates its holistic response to this crucial challenge.

3.1. Climate action

Climate action is an integral part of the EU blending, with about 62% of operations directly relevant. Blending is a powerful tool to support EU climate action both in adaptation and mitigation, because it allows climate investments to be achieved at scale, leveraging additional sources of climate finance. The regional facilities are a key element of EU support to developing countries in low carbon and climate resilient development.

Since July 2014, EUBEC has sought to improve the climate relevance and impact of EU blending operations. To this end, a technical group on climate was set up (Technical Group 7), which discussed possible improvements and prepared a report with options to strengthen climate action in

the EU blending facilities.

There was a strong agreement that the EU Blending Facilities should continue providing climate finance based on its proven strengths and building on synergies with other instruments, continue playing a strong role in the preparation of project pipelines and mainstreaming low-carbon and climate resilient development in the pipeline, and work with private and public sector actors and multilateral climate funds (e.g. the Green Climate Fund), notably to mobilise private capital for climate investments. EUBEC also continued to improve the communication, visibility and transparency of climate action in EU blending.

The EUBEC discussions were a contribution to the EU preparations for and participation at the successful Paris Climate Agreement, including a well-attended and received side event during the COP21.

3.2. Private sector

Taking into account the EU principles and criteria for supporting private sector actors, as detailed in the Private Sector Development Communication and supported by the Council Conclusions of 12 December 2014, and previous work carried out under the EUBEC on further use of specific financial instruments, the Technical Group 6 identified lessons learned, as well as a number of good practices to be considered in blended operations. The Group presented recommendations to the December 2014 PG, briefly summarized as: (1) The success in attracting private sector resources for projects financed through the blending mechanisms will be monitored according to a common methodology through a specific leverage indicator; (2) Contributions by private stakeholders at Blending Facility level could be done through dedicated funds, alongside additional contributions from Member States, while preserving the capacity of the EU to ensure alignment of supported projects with EU strategic objectives and priorities; (3) Donor support is an important tool for the EU and FIs to develop local markets, e.g. through local currency financing instruments, dedicated funds, and portfolio risk sharing; (4) Technical Assistance to all relevant parties is indispensable to develop a local business environment conducive to investment, to increase the supply of bankable projects, to develop local services supporting business and to improve absorptive capacity of potential beneficiaries; (5) The scope for closer cooperation with selected social investors and NGOs that have developed specific expertise in areas where FI are less active in the context of the blending instruments could be examined; (6) It is important that recourse to blending for private sector operations be properly justified, with clear identification of the market failures addressed or distributional objectives and to ensure that the subsidy is properly calibrated and is structured in line with actual needs, also in view of non-financial risks related to the use of specific financial instruments in blending operations with private sector involvement; (7) Ensuring that projects involving private sector are assessed in terms of their development results, and in particular with regards to the risk that financial incentives outweigh development principles, can be achieved through strong monitoring systems strict adherence to high standards of conduct by beneficiaries, with respect to environmental and social policies and practices, corporate governance, transparency and integrity, including prevention of tax fraud and tax evasion.

As a follow up of the work undertaken in the framework of TG 6, a Technical Meeting was held on 16 October 2015, focused on the main constraints preventing institutional and other private investors

from participating in the financing of projects in the emerging countries. Inadequate risk/return profiles, rating, liquidity, currency and transaction size were identified as some of the aspects that should be considered. Possible solutions included loan syndication, participation of private investors in the loan market, participation in equity funds, and donor support to reduce expected loss and increase attractiveness.

FIs stressed that some success at attracting institutional investor interest on a per project basis for relevant projects had been attained. However, success at the portfolio level has been limited to date, though efforts are ongoing. Some innovative examples were discussed, aiming to attract private investors on the basis of a shared portfolio. Looking ahead, financial Institutions were asked to submit more concrete concepts for further discussion in view of enhanced private sector participation and potential EU involvement.

3.3. Export Credit Agencies

Regarding the potential collaboration between Finance Institutions and Export Credit Agencies ("ECAs"), participants discussed some of the possible issues of bringing in the ECAs and commercial banks in public sector programmes financed by the EC and the FIs.

Some financial institutions pointed out that there is a danger of ECAs crowding out commercial finance that is actually available, thus distorting the market and setting the wrong incentives. FIs also noted that sharing the preferred creditor status would not bring in additional benefits, since ECAs usually are preferred creditors as lenders. FIs expressed their view that sharing the preferred creditor status with commercial banks is not an option for the FIs in public sector projects where the sovereign acts as borrower or guarantor, while in private sector projects this is quite common. As pointed out by the FIs, European Banking Association and the Danish ECA, there are already examples of cooperation between FIs, commercial banks and ECAs in developing countries, such as the mixed credit schemes in Belgium, Denmark and Austria as well as the collaboration between FIs and ECAs in the context of the Berne Union in various areas.

The participants concluded that cooperation with ECAs and commercial banks in the context of blending facilities is already a possible option, and no further sessions will be needed. Participants were invited to propose concrete project ideas involving the ECAs and commercial banks for consideration in the blending frameworks.

3.4. Civil society

The EC continued its exchange on blending with CSOs and private sector. Four meetings were held during 2014: three in the context of the Policy Forum on Development (PFD) during the sessions organised in Lima (Peru), Bangkok (Thailand) and Brussels. A specific workshop on the work produced in the context of TG6 was also organised in November 2014.

3.5. Future discussions

Technical meetings and Policy Group meetings under the EUBEC will continue to be held on key EU policy issues such as the response to the migration crisis, climate change and private sector engagement, including on the possibilities for using a guarantee model in third countries, building on

the experiences with the Investment Plan for Europe, that would allow International Financial Institutions to address specific bottlenecks to investment and thus crowd in private actors.

4. Conclusions

- 1) The EU blending facilities have continued to perform adequately in support of EU external policies. Clear and consistent governance is now in practice.
- 2) Most of the recommendations raised in a report by the Court of Auditors regarding the effectiveness of the blending facilities have already been dealt with mainly in the context of the EUBEC, and the EC will continue to pay close attention to the process and any concerns raised.
- 3) Blending remains a relatively new instrument, and an independent external evaluation of its effectiveness is now ongoing, based on evidence so far. Consultation of other stakeholders such as Civil Society Organisations also continues.
- 4) On private sector mobilisation, building on previous EUBEC work, technical discussions on particular concepts presented by the FIs continued, and FIs were asked to continue to present concrete concepts for further discussion.
- 5) Regarding climate action, the regional blending facilities need to continue to integrate climate action in the EU blending operations and support the implementation of the Paris Climate Agreement. The EUBEC discussions should support the implementation and provide further horizontal guidance as needed.