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signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
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on the activities of the EU Platform for Blending in External Cooperation
since its establishment until end July 2014

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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 since its
establishment until end July 2014**

1. INTRODUCTION

The Agenda for Change emphasises the support of inclusive growth and job creation as a key priority of EU external cooperation. In this context, blending is recognised as an important vehicle for leveraging additional resources and increasing the impact of EU aid.

In accordance with Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 on the EU guarantee for European Investment Bank (EIB) external lending, the Council and the European Parliament (EP) requested that the Commission study, and subsequently report upon, 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 subsequent report to the Council and EP on 26 October 2012, the Commission proposed setting up the new EU Platform for Blending in External Cooperation (EUBEC) as a Commission Group of Experts. Accordingly, the Platform was formally launched at the first meeting of the "Policy Group" which took place on 14 December 2012.

In line with the commitment that the Commission will report to the EP and Council, this document represents the first such report and covers the work of the Platform since its establishment on 14 December 2012 until end July 2014.¹

The Commission has chaired the Platform meetings and has also actively contributed at the policy and technical level together with EEAS, MSs, EP and Financial Institutions (FIs). The Commission acknowledges the added value of cooperation and deliverables achieved, as reflected in the recommendations of this report.

The role of the Platform is not to replace or duplicate existing decision-making structures.

2. OBJECTIVES

The report of the Commission to Council and EP on 26 October 2012 outlined the overall objective and scope of the Platform.

The Platform should 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 Platform should provide guidance for the harmonisation of key principles regarding blending activities whilst allowing for differentiation by sectors and regions.

The Platform should focus on sectors where financial instruments can be most usefully deployed, within and across geographical regions.

The Platform should also help to strengthen coherence of blending activities with EU policies.

¹ Further detailed working documents and reports can be found at the <http://ec.europa.eu/transparency/regexpert/index.cfm> since the Platform is a registered **Commission Expert Group E02852**

3. OVERVIEW OF THE PLATFORM WORK DURING 2013/14

The Platform is composed the Policy Group and Technical Groups.

Policy Group

The Policy Group consists of EU Member States representatives, EEAS and the Commission, with the EP invited. Other participants may be invited as observers.

The Platform was launched at the first meeting of the "Policy Group" (14 December 2012) which agreed on the Work Plan for 2013 which was then revised in June 2013 and December 2013. The Policy Group has met five times, in December 2012, June and December 2013, April and July 2014 and discussed the work of the Technical Groups and additional selected topics, with input provided by the Commission, such as on the Future Governance of EU blending facilities and the role of non EU-FIs in EU blending facilities.

FIs involved in the technical work were invited to participate at Policy Group meetings as observers. The Commission chairs the meetings and provides the secretariat ensuring coordination and communication.

Technical Groups

The Technical Groups (TGs) consist of the Commission, EEAS, FIs and a number of Member States representatives. Representatives of the EP also participate in the technical work of the Platform. The sharing and exchange of expertise between participants has been an essential and mutually beneficial experience.

Up to date, five specific TGs were established, complemented by several cross-cutting TG meetings. These were focused on the following objectives:

TG 1 "Review of existing blending mechanisms" - TG 2 "Enhancement of blending activities"- Results Measurement Framework (RFM) - TG 3 "Improvement of Processes" - TG 4 "Promotion of Financial Instruments" - TG 5 "Contracting, monitoring and reporting"

This technical work was complemented with four workshops: (a) on the issue of "**Climate Change mainstreaming** in blending facilities" (b) on "**Debt sustainability**" (c) on **Blending and ODA**, and (d) a roundtable with European Export Credit Agencies (ECAs).

The EP actively participated in the discussion of the Platform both at the Policy Group and the Technical Groups.

Involvement of Civil Society and Private Sector

Four meetings were held with representatives of Civil Society Organisations (CSOs) - two meetings on 30 April and 24 July 2013, a brainstorming session on how to catalyse private financing with blending organised in the context of the European Development Days on 26 November 2013, targeting the CSOs and private sector investors and another meeting on 3 July 2014 involving CSOs and private sector.

4. WORK OF THE TECHNICAL GROUPS

4.1 REVIEW OF EXISTING BLENDING MECHANISMS

The initial technical work under the Platform concerned a broad review of existing EU blending facilities and exchange of best practices drawing the following conclusions:

(i) Existing EU blending facilities show positive signs regarding performance in support of EU external policies although procedures on the development, screening/assessment/selection, monitoring and reporting of operations need to be further streamlined, harmonized and improved.

(ii) The blending mechanisms have achieved their goal of mobilizing significant public resources for the financing of investment projects in support of EU external policies. There is room for further use of financial instruments (such as risk capital, guarantees, interest rate subsidies).

(iii) Further improvements are needed in terms of monitoring and reporting systems at facility as well as at project level.

(iv) Projects financed under the blending mechanisms cover a variety of sectors and can be of different size using different types of support depending on the needs. This flexibility certainly contributes to the relevance and quality of the project portfolio, giving the possibility to the Commission to set operational priorities depending on specific regional policies and needs. Greater involvement of EU Delegations in pipeline development would further increase the relevance of project portfolio.

(v) Project design and preparation are carried out with sound processes and standards by FIs, and project proposals are assessed through peer review mechanisms and internal Commission/EEAS screening. The added value of the grant is demonstrated in the project documentation and appraised during the screening process, but however, should be further specified and analysed in the grant application form to allow measurability. Financial leverage calculations and grant application forms should be harmonized and the quality of information provided by FIs further improved, for more efficient assessment/selection, monitoring and reporting purposes.

(vi) One of the main successes of the blending facilities is the enhanced coordination, exchange of information and cooperation between European aid actors as well as to a lesser extent and in specific regions, with non-European aid actors. This has been achieved through both the participation of the different actors in the formal governance bodies of the EU blending mechanisms as well as through informal coordination at local or Headquarters level, or under the various Memoranda of Understanding with the EU/Commission in force. However, it should be underlined that five main European partners represent the great bulk of operations approved so far. Efforts should thus be made to promote a wider participation in the facilities among EU aid actors. Greater involvement of non-European aid actors could also be pursued. This issue was further discussed in the context of the Platform concluding that the involvement of non-European FIs and in particular regional banks to act as lead FIs should be examined by the Board of the relevant blending framework following a targeted approach, on the basis of the specific added value brought in a particular project or region. Moreover, where non-European FIs are already acting as lead in specific blending facilities, their role should be preserved, provided that conditions related to their value-added are met. Coordination and co-operation among European and non-European FIs, remains of critical significance and for this reason, non-European FIs should be invited to attend relevant meetings as observers.

(vii) As a general rule, partner countries/regions are involved at technical level for each project from the outset, ownership being a general feature of loan-financed assistance. Partner countries/regions should systematically be involved, at the appropriate level, in the project design and preparation phase (consultation performed should be documented in the grant application form). Coordination should take place at local level between the EU Delegations and the FIs vis-à-vis the partner country/region to ensure maximised development impact of projects financed under the blending mechanisms. A number of these points above were followed up in further technical work as detailed below.

4.2 ENHANCEMENT OF EFFECTIVENESS, TRANSPARENCY AND ACCOUNTABILITY OF BLENDING ACTIVITIES - RESULTS MEASUREMENT FRAMEWORK, IMPROVEMENT OF PROCESSES- CONTRACTING, MONITORING AND REPORTING

Following the review of existing blending facilities above and experience gained so far, technical work aiming at concretely addressing 3 key challenges was divided over TG2, TG3 and TG5:-

(1) Enhanced Technical Assessment of Blending Projects

Work was carried out to further enhance the assessment process of projects, harmonising as far as possible across facilities the assessment criteria based on best practices.

The technical work carried out resulted in an improved and harmonised **Grant Application Form** to be used by the various EU Blending facilities. **Detailed Guidelines** have been developed to accompany the Application Form, which aim at providing information and clarifications to the applicants on how to fill in the Form. The new Guidelines explain in particular, how the issue of additionality and leverage of any grant requested should be justified and presented in more structured and measurable way while further elaborating other fields such as the financial structure of projects where relevant. Environmental and social aspects are screened against EU standards as for any other EU financed project. The issue of debt sustainability is explicitly introduced, drawing upon the workshops held with IMF colleagues. There is also a new section on indicators which is linked to the new Results Measurement Framework (see below). In early 2014 the new Application Form has been introduced for new project proposals in all DEVCO managed facilities. Building on the work of the EUBEC, the WBIF Task Force is further working in streamlining and improving relevant operational procedures.

(2) Development of a standardised Results Measurement Framework

Technical work was carried out on a new result measurement framework intended to aid the Commission and the FIs to provide information on the expected results of projects supported by the facilities ex-ante, measure the outcome of their funding activities ex-post and allow further enhancement of reporting on the achievements of the facilities, all of this reflecting the requirements of the new Financial Regulation, Commission results frameworks, as well as the EU external cooperation policies priorities and objectives.

The result was an agreed framework consisting of a **common set of results indicators that reflect outputs and intended outcomes of projects**. The choice of indicators was guided by a series of considerations, such as coherence with the facilities' objectives and priorities, EU's external cooperation policy objectives and Financial Regulation, as well as current practices by FIs and the possibility for aggregation and for reporting to the general public (amongst others). The framework includes a definition for each of the indicators agreed and also requires applicants to qualitatively describe the expected impact of the proposed project. The new results framework has been incorporated into the new AF and Guidelines (see above) and in early 2014 has been introduced for new project proposals.

(3) Harmonization of Contracting, Monitoring and Reporting

The technical work carried out involved the Commission, EEAS services in headquarters and Delegations as well as FIs. The main objective of the TG was to work on the harmonisation and speeding up of the contracting process within the facilities by producing relevant and detailed Guidelines that will help to insert the relevant contracting information in the project fiches submitted to the governance bodies of the facilities, with the aim to simplify the contracting of projects. TG5 concentrated on explaining and clarifying contractual definitions and processes that need to be integrated in advance in the project information fiche in order to allow a full comprehension of the

project implementation, financial flows and respective responsibility of the stakeholders. The appropriate contractual information was therefore integrated for efficiency reasons in the detailed Guidelines on how to fill in the Application Form. In addition, a set of recommendations/best practices for reporting and monitoring have been identified based on the current experience of both the Commission and FIs during the implementation of projects as well as on the requirements of the legal framework applicable to the financial instruments set by the Financial Regulation.

The Commission welcomes the Platform's efforts to keep ensuring a well-structured, transparent and effective project selection process, with efficient contractual processes as well as proper result oriented monitoring and reporting procedures, adequately based on relevant and up-to-date legal requirements.

The Commission recognises the important progress made under the Platform through development of the new – harmonised – tools to be used across all blending facilities such as the enhanced application form and accompanying guidelines.

4.3 FURTHER DEVELOPMENT OF FINANCIAL INSTRUMENTS

Market-based investment is a key driver of development and an important parameter differentiating developed economies from less developed ones. Examples include banks' lending to small and medium-sized enterprises, public and private utilities investing in power generation, or key infrastructure projects like roads and railways.

The expanded use of specific financial instruments (e.g. guarantees, equity, local currency risks, and other risk sharing mechanisms) is motivated by the need to use the limited available budget funds as efficiently as possible as well as by the assessment that grants are not always the best instrument to develop these types of economic activity and may sometimes fail altogether.

The use of specific financial instruments can be recommended when market participants, which may include development finance institutions, are not providing the required financing in sufficient amounts or suitable terms for otherwise financially viable projects due to the presence of market failures.

In addition to addressing market failures or sub-optimal investment situations, financial instruments need to provide clearly defined additionality (value-added) as well as leverage for the EU budget funds, and their design must ensure the alignment of interest between the Commission and its implementing partners.

Based on the above and on the practical experiences of the Platform members, the Platform selected a number of sectors where the increased use of above mentioned financial instruments should be further explored, e.g. infrastructure, MSMEs, agriculture, social. Although the type and level of the EU support needs to be assessed in light of each individual project, the Platform endorsed some basic principles on minimum requirements, maximum support thresholds and mechanisms to ensure alignment of interest between the Commission and the implementing Eligible Finance Institution.

The Commission endorses the platforms efforts to promote further use of financial instruments. Because these financial instruments are comparatively complex products, their design will be carefully adapted to the operating environment of individual partner countries.

Furthermore, the Commission will apply the EU's basic tenet for financial instruments: the non-contingent-liability rule, which ensures that the EU's financial liability resulting from a financial instrument can in no case exceed the amount of the relevant budgetary commitment made for it.

5. FUTURE GOVERNANCE OF EU BLENDING FACILITIES

In order to improve the effectiveness of blending operations in meeting their policy objectives of poverty reduction and socio-economic development as well as the efficiency of their management including a reduction of transaction costs, the Platform agreed to the organisation of 4 blending "frameworks" according to the financing instruments (EDF – ENI – DCI – IPA). At the same time, in order to be able to address the different regional strategic priorities, to increase policy leverage and effectively use blending operations for policy dialogue, and for reporting purposes, it is proposed to designate under each framework geographically defined "facilities".

The financing will mainly come from the regional programmes defined under the different instruments, in accordance with the priorities and objectives defined in the programming documents, in dialogue with partner countries and relevant regional organisations. Where relevant and appropriate, financing could also come from specific national/regional programmes² in support of priorities and objectives in these countries/regions as defined in the relevant programming documents. Should there be an interest from EU Members States or other donors to contribute to blending operations, this will be done through dedicated fund(s). There will be one single governance structure for each blending framework, governing Commission funds as well as EU Members States or other donor's contributions through dedicated funds. This framework will apply to all regions, including Africa. Building on the work of the EUBEC, the WBIF Task Force is further working in streamlining and improving the relevant governance structure.

Decision making will be organised in a 2-level structure. Opinions on projects proposals will be formulated at the Board level. Such opinions will be prepared by a technical level assessment.

Boards³, chaired by the Commission, include the EEAS, the EU MS as voting members, and FIs as observers. They will be responsible for formulating opinions on individual blending operations, providing guidance to participating institutions, monitoring and reviewing the project pipeline, examining project related results and monitoring the portfolio of approved projects, as well as drawing on the specific expertise of the FIs as appropriate, ensuring division of labour.

The **technical assessment** of project proposals will include regular technical meetings chaired by the Commission (involving relevant DGs as appropriate) with the participation of EEAS⁴ and FIs that will discuss the pipeline and assess the projects to be submitted to the Boards.

The enhanced (and more harmonised) project application form developed under the Platform is already in place and contributes to ensuring a well-structured, transparent and effective project selection process⁵.

The **Secretariat** supports the Board in all its tasks, supports in the organization of communication events and the general implementation of the communication strategy, organises the technical level assessment of proposals and is the central contact point for all stakeholders involved in the blending frameworks. The Secretariat structure and operation will have to be adjusted according to the new overall structure and decision making process; the Commission will ensure the Secretariat of each EU blending framework as well as the corresponding facilities, possibly exploring the option of outsourcing of specific tasks.

² As well as to a lesser extent from thematic programmes.

³ In the case of WBIF, this is called the Steering Committee, in which the EEAS is not involved.

⁴ In the technical assessment of WBIF project proposals EEAS is not involved

⁵ In the WBIF reflecting the fact that the main applicants are the beneficiary countries.

The proposed reviewed **decision-making process** aims at streamlining, simplifying and improving the efficiency of the decision making process as well as at meeting the new requirements set by the Financial Regulation when projects are implemented under indirect management. The reviewed decision-making process includes: (i) Improved early stage coordination, which will ensure that resources are focused on identified priorities, (ii) Broader and enhanced technical assessment to further improve quality and facilitate exchange of expertise, drawing upon the specific expertise of the FIs as appropriate, (iii) Greater flexibility with better matching time spent on technical assessment to the relative complexity of each proposal and (iv) Reduced number of overall steps in the process. Once a proposal is assessed as technically mature, the lead FI⁶ will be able to submit a final revised application form to the Secretariat in view of the submission to the Board.

In the case of the DEVCO managed blending frameworks, **the Commission, EEAS and the MS** will hold a dialogue (co-chaired by EEAS and Commission) on strategic orientations, general guidelines **with beneficiary countries and relevant regional organisations**. This can be either done in the context of existing regional or sub-regional policy coordination fora or, where there are no such suitable identified fora, in dedicated strategic meetings, under the ownership principle of our development cooperation. In the case of the WBIF, already established discussions at the strategic level involving beneficiary countries are to be further enhanced with the promotion of 'single sector pipelines' per country.

Civil society engagement at project level is currently managed by FIs, as part of their project approval and management processes, either by ensuring that the project promoter undertakes the relevant public consultation or directly. The role of the Delegations/ Geographical Units should be to engage with representatives of local civil society in line with common practice for other implementation modalities. In addition, the Commission will further increase its efforts to enhance access to information for civil society organizations, including regional ones, at the level of the facilities. Regular meetings on blending have been organized with CSOs in Brussels.

6. OVERVIEW OF CONCLUSIONS AND RECOMMENDATIONS

(1) Based on experience to date, existing EU blending facilities show positive signs regarding performance in support of EU external policies.

(2) Technical work already carried out has resulted in an improved and harmonised Grant Application Form to be used by the various EU blending facilities. Detailed Guidelines have been developed to accompany the Application Form, which aim at providing information and clarifications to the applicants on how to fill in the form. The issue of debt sustainability was explicitly introduced and the on-going revision of the IMF framework will be followed up.

(3) A new results framework has been developed and incorporated into the new Application Form and Guidelines (see above).

The Commission welcomes the Platform's efforts to keep ensuring a well-structured, transparent and effective project selection process, with efficient contractual processes and proper results-oriented monitoring and reporting procedures, adequately based on relevant and up-to-date legal requirements, and aligned with EU external cooperation policies priorities and objectives.

In this framework, the Commission recognises the important progress made under the Platform through development of the new – harmonised – tools to be used across all existing blending facilities such as the enhanced application form and accompanying guidelines.

⁶ Only in the case of the DEVCO managed facilities.

(4) Key areas are identified where the increased use of specific financial instruments should be further explored. These are based on their practical relevance and also to signal areas where future actions under the blending facilities should be targeted:

- Guarantees, equity and other risk sharing instruments for infrastructure projects and MSMEs;
- New sectors: Guarantees and risk sharing mechanisms for agriculture, social and other sectors.

The Commission supports the Platform's recommendations for the EU blending frameworks to make increased use of specific financial instruments particularly in infrastructure, MSMEs, agriculture and social sectors – with due consideration of the operating environments in the partner countries and of the no-contingent-liability rule. It will work closely with its development finance partners to bring innovative financial instruments with a strong development impact to the market.

(5) The Platform concluded that 4 blending "frameworks" should be organised according to the financing instruments (EDF – ENI – DCI – IPA). Operational conclusions related to projects will be taken in the respective four relevant boards (EDF board – ENI board – DCI board – WBIF Steering Committee). The revised decision-making process will help to streamline, simplify and improve efficiency as well as to meet the new requirements set by the Financial Regulation.

The Commission supports the further streamlining of blending facilities into four blending frameworks in order to improve the effectiveness of blending operations in meeting their policy objectives and to reduce costs.

The Commission, in close coordination with EEAS and EU Member States, will endeavour to ensure the efficient and effective implementation of the recommendations for a revised governance structure of the blending facilities.

(6) The involvement of non-European FIs and in particular regional banks to act as lead FIs should be examined by the Board of the relevant blending framework following a targeted approach, on the basis of the specific added value brought in a particular project or region. Moreover, where non-European FIs are already acting as lead in specific blending facilities, their role should be preserved, provided that conditions related to their value-added are met. Coordination and co-operation among European and non-European FIs remains of critical significance and for this reason, non-European FIs should be invited to attend relevant meetings as observers.

(7) The active participation of EU Member States, the EP, EEAS, and Commission services, a wide range of public FIs, multilateral and bilateral, European and non-European, has been essential in its demonstrable success to date. This has been further enhanced by the exchanges with CSOs and outreach to other actors.

The Commission believes that the EU Platform has clearly demonstrated its value in bringing together a wide range of stakeholders to exchange expertise on all aspects of blending in external cooperation. The Commission recommends that the EU Platform builds further on this experience and its success to date and continues its work on specific issues related to blending in external cooperation.

Finally, and in accordance with the Work Plan presented by the Commission and adopted by the Policy Group, the following issues have been identified and are already being addressed during 2014.

- Mobilisation of Private Sector Resources
- Best Practices and Opportunities in Climate Change Financing