



Council of the  
European Union

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**NOTE**

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From: General Secretariat of the Council  
To: Delegations

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Subject: Council conclusions on the European Court of Auditors' Special Report No 16/2014 on the "Effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies"

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At its meeting on 26 May 2015, the Council adopted the Council conclusions as set out in the annex to this note.

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**Council Conclusions on the European Court of Auditors' Special Report No 16/2014  
on "The effectiveness of blending regional investment facility grants with financial institution  
loans to support EU external policies"**

1. The Council welcomes the European Court of Auditors' Special Report No 16/2014 on "The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies."
2. The Council reiterates its support for the principles outlined in the Council Conclusions on an Agenda for Change<sup>1</sup> with regard to the promotion of new financial tools, including the blending of grants and loans, to leverage additional resources and increase the EU's impact on poverty eradication and sustainable development. The Council also recalls its Conclusions of December 2013 on Financing poverty eradication and sustainable development beyond 2015<sup>2</sup> underlining the need for blended finance to fully take into account debt sustainability and accountability and to avoid market disturbances and budgetary risks.
3. The Council stresses the importance of innovative mechanisms to mobilise additional resources for sustainable development, poverty eradication and climate action. It is also expected that these issues will form an important component of the third International Conference on Financing for Development in Addis Ababa in July 2015. The Council further recognises the potential of blending to finance projects that would not otherwise attract funding and private investors due to their high risk profile and/or their low profitability. In this context, the Council calls for emphasis to be placed on diversifying finance unlocked by blending, from both the public and the private sector.

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<sup>1</sup> Doc. 9369/12  
<sup>2</sup> Doc. 17553/13

4. The Council recalls its Conclusions of December 2014<sup>3</sup> outlining the principles and criteria for successful partnerships with the private sector, recognising that blending is an important tool to boost economic growth, innovation and job creation, and looking forward to the efforts of the Commission, Member States and European Financing Institutions in the EU Platform for Blending in External Cooperation (EUBEC) to improve effectiveness by increasing donor coordination and participation, promoting division of labour and reducing transaction costs for partners, and to enhance the developmental impact of blending operations, including on the basis of the lessons learnt.
5. The Council notes that the Court, in its Special Report, concludes that the regional investment facilities were well set up and that the blending of regional investment facility grants with loans from financial institutions to support EU external policies has been generally effective. The Report also indicates that significant additional resources have been leveraged, mainly by European Financial institutions.
6. The Council welcomes the conclusions of the Court regarding the demonstrated relevance of all audited projects to the development needs of the regions or countries concerned, the enhanced coordination between development partners, the reduction of transaction costs for beneficiaries as well as the funding of projects otherwise too large to be financed by a single institution. At the same time, the Council acknowledges the conclusion of the Court that potential benefits of blending were not fully realised due to management shortcomings and that, for half of the examined projects, there was no convincing analysis to show that a grant was necessary for the financial institution to contract the loans.

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<sup>3</sup> Doc. 16856/14

7. The Council welcomes the recommendations of the Court that, in the context of blending regional investment facility grants with loans from financial institutions, the Commission should:

- ensure that the allocation of EU grants is based on a documented assessment of the added value resulting from the grants in terms of achieving EU development, neighbourhood and enlargement objectives, notably by adopting and implementing guidelines to steer the Commission's involvement at all stages of the approval and follow-up process, and by taking a more proactive role in the identification and selection of projects, in particular at EU Delegation level;
- disburse funding only when the funds are actually needed by the beneficiary;
- improve its monitoring of the EU grant implementation, notably through a results measurement framework that includes indicators for following up the impact of EU grants, clear instructions to EU Delegations regarding their monitoring role and an adapted Results Oriented Monitoring methodology;
- increase its efforts to ensure appropriate visibility of EU funding.

8. The Council underlines the need to preserve the role of financial institutions and the bottom-up approach which are crucial for the success of blending operations. The Council stresses the importance for the Commission to limit funding disbursement to what is necessary to catalyse the investment while also taking into account the operational needs of the project subject to a blending operation. The Council further calls upon the Commission to fully capitalise on the potential of blending operations for a wider impact on sector policy.

9. The Council takes note and encourages the work initiated by EUBEC and completed so far by the Commission in reforming regional investment facilities and improving the effectiveness of blending operations. Measures initiated take into account major recommendations of the Court. They notably concern the assessment of the added value of the grant and of the actual disbursement needs, improved monitoring, instructions and guidelines for EU staff, including a greater involvement of EU Delegations, as well as communication and EU visibility, both at the level of blending facilities and of individual projects.
  
10. The Council welcomes the recent Report of the Commission on the activities of the EU Platform for Blending in External Cooperation (EUBEC) since its establishment until end July 2014<sup>4</sup> and acknowledges the measures taken to enhance the functioning of the EU's blending facilities. The Council, furthermore, welcomes the roll out of the new governance structure to enable an enhanced involvement of all Member States in blending facilities.
  
11. The Council stresses that ownership and alignment with national and/or regional development strategies should be ensured in all blending operations. In that sense strategic discussions with relevant national and/or regional authorities should be fostered. The Council recalls the EU commitment to integrate the fight against climate change in development cooperation and underlines the important role that blending can play in supporting EU climate action. The Council also recalls the EU commitment to mainstream gender equality and women's empowerment in all EU development policies and programmes, including blending operations.

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<sup>4</sup> Doc. 17001/14.

12. The Council calls upon the Commission to ensure appropriate follow-up and implementation as well as effective monitoring of the recommendations of the Special Report, and to continue improving the management of blending facilities and demonstrating the added value of the grant element, including in financial terms, and avoiding market distortions in blending operations. The Council underlines the importance of comprehensive and evidence based reporting on all blending operations in EU external cooperation in the context of the Commission's annual reporting obligations.
  
13. The Council looks forward to the evaluation, recently launched by the Commission, of blending as an aid modality and underlines the need to pay particular attention to assessing the development impact of blending operations. As this is expected to complement the Court's report, the evaluation should provide an important additional element in assessing the overall value of blending. Timely implementation of the results framework and reporting on the results of blending operations will be crucial in order to ensure impact and effectiveness of blending as a development instrument.

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