

Port de Pointe-Noire in the Republic of the Congo (Brazzaville), supported by a €328m blended finance package.  
Photo: Congo Terminal Pointe-Noire.

# BLENDING FINANCE

## What it is, how it works and how it is used

JAVIER PEREIRA

Independent consultant

In recent years, ‘blending’ has become a common development finance term. The practice combines official development assistance with other private or public resources, in order to ‘leverage’ additional funds from other actors. There is some confusion about its meaning, how it works, and how it fosters development, as well as a significant lack of project data. Blending can be problematic: it does not necessarily support pro-poor activities, often focuses on middle-income countries, and may give preferential treatment to donors’ own private-sector firms. Projects may not align with country plans, and commonly fail to incorporate transparency, accountability, and stakeholder participation. This report aims to clarify what blending is, how it works and how it is used, to foster greater understanding of this increasingly prominent development finance mechanism.

# CONTENTS

<b>List of acronyms</b>	<b>3</b>
<b>Executive summary</b>	<b>5</b>
<b>Introduction</b>	<b>6</b>
<b>1 Blending as a global phenomenon</b>	<b>8</b>
<b>2 Analysis of the sample blending facilities</b>	<b>22</b>
<b>3 Concluding remarks</b>	<b>43</b>
<b>Annex I: Methodology</b>	<b>45</b>
<b>Annex II: Ex ante additionality assessment in EC blending projects</b>	<b>46</b>
<b>Notes</b>	<b>47</b>
<b>Acknowledgements</b>	<b>51</b>

# LIST OF ACRONYMS

AECID	Spanish Development Cooperation Agency
ADF	French Development Agency
AfDB	African Development Bank
AfIF	Africa Investment Facility
AIF	Asia Investment Facility
CDB	Caribbean Development Bank
CEB	Council of Europe Development Bank
CIF	Caribbean Investment Facility
CRS	Creditor Reporting Service
DAC	Development Assistance Committee
DEG	German Investment Corporation
DFI	Development finance institution
DG DEVCO	Directorate-General for International Cooperation and Development
DGGF	Dutch Good Growth Fund
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	European Court of Auditors
EU	European Union
EIB	European Investment Bank
GFF	Global Financing Facility in Support of Every Mother, Every Child
HRITF	Health Results Innovation Trust Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFCA	Investment Facility for Central Asia
IFP	Investment Facility for the Pacific
ITF	EU-Africa Infrastructure Trust Fund
KfW	Reconstruction Credit Institute (Germany)

LAIF	Latin America Investment Facility
M&E	Monitoring and evaluation
NIF	Neighbourhood Investment Facility
NORAD	Norwegian Agency for Development Cooperation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIDG	Private Infrastructure Development Group
PPP	Public-private partnership
PwC	PricewaterhouseCoopers
RMNCAH	Reproductive, maternal, newborn, child, and adolescent health
SCDB	Seed Capital & Business Development Programme
SIMEST	Società italiana per le imprese all'estero (Italian DFI)
SMEs	Small- and medium-size enterprises
TA	Technical assistance
TOSSD	Total Official Support for Sustainable Development
WEF	World Economic Forum

# EXECUTIVE SUMMARY

In the past few years, 'blending' has become a common term in development finance. However, there is some confusion about what it means and, by extension, how it works and contributes to the achievement of certain development objectives. This report intends to weigh in on this debate by exploring blending through three different questions: What is blending? How does it work? And how is it being used?

Blending can be broadly defined as the combination of public concessional official development assistance (ODA) with private or public resources, generally with the aim of 'mobilizing' or 'leveraging' development finance from other actors. Beyond the mechanics of blending, there are several other elements that influence its development impact. Accounting for the use of ODA and the resources it mobilizes is a key part of blending projects' implementation and the cornerstone of any further analysis. Such factors as the choice of project partners and beneficiaries and the quality of decision-making structures, project design, and monitoring and evaluation mechanisms all have a crucial bearing on the development outcomes.

The report builds on evidence from three blending facilities and pays particular attention to the use of ODA for blending purposes. The result of this exercise is a list of several specific quantitative and qualitative risks associated with the practice of blending that could undermine its impact or that of development assistance flows in general. Key risks include:

- **ODA and development finance inflation.** The lack of a common methodology to account for ODA for blending and mobilized finance can lead to double-counting and makes it possible to report it as ODA money, which is not spent in a concessional way.
- **ODA diversion from other aid modalities.** New accounting methodologies could provide intended or unintended incentives for using blending (e.g. because in addition to ODA, donors can report significant amounts of mobilized finance). Moreover, it is also possible that blending projects are easier to align with donors' political and economic priorities, compared with other forms of ODA (e.g. the support of national private sector companies).
- **ODA concentration on certain sectors and/or countries.** For example, strong financial sustainability requirements in blending facilities, or the managers and/or the absence of incentives to focus on pro-poor projects, could lead donors to focus on countries and sectors with a lower risk profile, such as middle-income countries.
- **Lack of demonstrable development effects.** Weaknesses in monitoring and evaluation systems, or inadequate definitions of additionality, may allow projects to proceed in the absence of demonstrable impacts or on the basis of financial performance.
- **Lack of coordination with bilateral aid agencies and other donors.** The use of indirect channels of support and, often, the transfer of responsibility to external managers or project leaders, can make it difficult to coordinate donors and their alignment with country plans.
- **Poor project ownership and accountability.** Transparency is a challenge in many blending projects. In addition, several of the actors involved lack independent complaint mechanisms. These issues make it difficult for affected stakeholders to channel their concerns and hold donors accountable. The participation of public and private stakeholders in project decisions is also a major challenge in blending projects, especially those involving the private sector.

# INTRODUCTION

In the last few years, blending has become a common term in development finance; it often appears associated with other financial terms, such as ‘leveraging’. However, there is some confusion about what it means, and, by extension, how it works and contributes to the achievement of certain development objectives. There is also a significant lack of data and evidence about blending projects; something that can be partly explained by the lack of a common language and understanding of blending.<sup>1</sup> This report intends to contribute to the building of a common and specific language of blending.

The objective of this report is to identify areas that are key to maximizing the development impact of blending projects and describe the associated quantitative and qualitative risks. This requires looking at the practice of blending itself, as well as at how it affects other flows and, in particular, official development assistance (ODA). To simplify the analysis and guide the reader, the topics have been aggregated into three broad research questions:

- **What is blending?** Blending can be broadly defined as the combination of public concessional ODA with private or public resources, generally with the aim of ‘mobilizing’ or ‘leveraging’ development finance from other actors. However, this is a broad definition that comprises many different potential design options. This report breaks this definition down into its essential elements and discusses its practical implications.
- **How does blending work?** In general, we assume that blending ‘leverages’ or ‘mobilizes’ other sources of finance, but what does this mean, and what are the conditions necessary for it to happen? This report explores the main building blocks of blending and tries to provide some answers to these questions.
- **How is blending being used?** Beyond the mechanics of blending itself, there are several other elements that influence the development impact of blending projects. Accounting for the use of ODA and the resources it mobilizes is a key part of the implementation of blending projects and the cornerstone of any further analysis. At a different level, the choice of project partners and beneficiaries and the quality of decision-making structures, project design, and monitoring and evaluation (M&E) mechanisms have a crucial influence on all development projects.

This report was originally prepared to inform the work of Oxfam International and Eurodad on the blending of public concessional ODA with private and public resources. Thus, our concluding remarks reflect on the implications of the report’s findings for their work.

## RESEARCH APPROACH

To answer these questions, this report relies on the analysis of different sources of information. A detailed review of three blending facilities complements the analysis of existing relevant literature and secondary sources. This should help to fill some of the gaps in the existing literature and test some of the conclusions reached by other authors. In the context of this report, we understand a facility to be a set of projects implemented using a common pool of funds under differentiated contractual, financial and management procedures.

We chose from among facilities seen as blending ODA funds in the literature and in their own documentation. We have not used a definition to screen the facilities and instead have relied on how the facilities depict themselves; this distinction helps cover facilities with different operational models. In turn, this approach should provide richer evidence informing this discussion, especially when it comes to establishing a definition of blending. The three different facilities examined in this report are:

- The Dutch Good Growth Fund (DGGF)
- The European Commission's EU Blending Facilities (eight facilities), and
- The World Bank's Global Financing Facility in Support of Every Woman, Every Child (GFF).<sup>2</sup>

We examine these facilities from a variety of angles to provide answers to our research questions. We have examined the regulatory framework to map decision making structures, implementation procedures, operational procedures and so on. We have used the results of this exercise to complement and test against the analyses of a database of projects implemented by each of the three facilities. Please refer to Annex I for more information on the database and the methodology behind this report.

## STRUCTURE OF THE REPORT

This report is divided into three chapters. The first chapter discusses the main research questions. The second chapter focuses on the facilities in the research sample. It looks at a wide range of different issues, including use of ODA, accounting for ODA and mobilized flows, operational model, use of financial instruments, sector focus, and how they demonstrate development impact. Chapter 3 summarizes the report's most important findings and implications.

# 1 BLENDING AS A GLOBAL PHENOMENON

This chapter aims to provide answers to the report's three main research questions. To do so, it builds on evidence from different sources, including the analysis of the three facilities presented in the second chapter. The first section sheds light on blending by looking at different definitions and examining their practical consequences. It also discusses the use of other terms used to define similar ideas. The second section deals with the mechanics of blending and the central ideas and assumptions behind the concept as a way to illustrate how it is supposed to work. The third section explores different aspects of how blending is currently being used. It focuses on how donors select projects and account for the financial resources used for blending and flows mobilized from other resources. It also discusses the consequences of some of the implementation modalities they have adopted.

## 1.1 WHAT IS BLENDING?

**There is no single, universal definition of blending.** Different donors and organizations have adopted varying definitions that, as we discuss below, result in important implementation differences. This conclusion emerges from our analysis of the following list of definitions of blending:

1. 'The strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.'<sup>3</sup>
2. 'Grants or grant-equivalent finance combined with non-concessional finance [loans] to provide greater finance at below-market rates or with longer maturities than provided by the market.'<sup>4</sup>
3. 'Instruments that blend public and private financing and that support private sector projects.'<sup>5</sup>
4. 'ODA funds used for investment in private sector projects on concessional terms.'<sup>6</sup>
5. 'A mechanism that links a grant element, provided by ODA, with loans from publicly owned institutions or commercial lenders.'<sup>7</sup>
6. Complementary use of grants (or grant-equivalent instruments) and non-grant financing from private and/or public sources to provide financing on terms that would make projects financially viable and/or financially sustainable.'<sup>8</sup>

These definitions present some similarities and some important differences. In order to identify and evaluate them, we have mapped each of these definitions against four different criteria. They are:

- The nature of the finance provided to achieve the blending effects (e.g. ODA, other, etc.).
- Whether the definition requires that the finance provided for blending is combined with other sources or finance, and in what terms.
- Whether blending should mobilize additional finance.
- The nature of the project beneficiaries targeted through blending.

The results of the exercise are presented in Table 1 below. The table also indicates, for illustrative purposes, which of the facilities assessed in Chapter 2 would be covered by the definition.

**Table 1: Blending definitions – Breakdown of the main elements**

Definition	Nature of blending element	Requires combination with other finance	Mobilization of other finance	Project beneficiary type	Which of the three facilities it covers
1	Development finance in general (ODA and non-ODA)	No information	Yes, should mobilize private capital	No information	EU blending facilities DGGF
2	Concessional (ODA)	Yes, non-concessional finance (loans)	Yes, should be on better terms	No information	EU blending facilities DGGF (investment fund window only)
3	Public finance (ODA and non-ODA)	Yes, private finance	No information	Private sector projects	EU blending facilities DGGF
4	ODA	No information	No information	Private sector	EU Blending facilities DGGF
5	ODA	Yes, loans	No information	No information for EU blending facilities Public sector for GFF Trust Fund	EU blending facilities GFF Trust Fund
6	Grants or grant-like (ODA)	Yes, non-grant-like	Yes, to make projects financially viable or sustainable	No information	EU blending facilities DGGF

Source: Author's analysis.

Table 1 shows that no two definitions are identical. They all accept the use of ODA, either explicitly or implicitly, but in two cases, another type of finance is accepted. In addition, all the definitions fail to address at least one of the areas in the table, and it is difficult to make a judgement about it. In any case, it is worth discussing the differences in greater detail because of their potential policy implications:

- Requirement to combine (blend). A definition of blending that does not require combination with other forms of finance would be significantly broader and include forms of finance which have been around for many years (e.g. a direct loan). The combination factor is also implicit in the term 'blending'.
- Use of ODA. This case is similar to the one above. However, without this restriction, the scope of flows increases exponentially to include other forms of public finance, such as export credits, loans at market rates, the acquisition by governments, and central monetary institutions of securities issued by multilateral development banks at market terms or support to the private sector. The difference between concessional and non-concessional finance is not arbitrary, and it is restricted to differences in the financial terms. There are substantial differences between ODA and other types of finance. Whereas ODA is defined as finance provided 'with the promotion of the economic development and welfare of developing countries as its main objective',<sup>9</sup> some of the non-concessional flows focus on the promotion

of the economic interest of donor countries. Ultimately, this difference translates into several obligations in terms of transparency and other aspects (e.g. development effectiveness principles). If all forms of public finance were included in the definition of blending, this would create a tension in terms of objectives and fiduciary and management requirements and expectations between concessional and non-concessional finance (e.g. transparency, etc.).

- We need to assess mobilization from two different angles. First, mobilization often seems to include the idea of generating added value. Although this might not be a necessary condition for blending to take place, the discussion in the sections on additionality and leveraging shows that it is a key aspect of blending projects. Second, it is not clear whether the 'mobilized additional finance' should be restricted to private finance or open to all types of finance. Although we can leave this issue unresolved, it can be useful to differentiate between two types of blending:
  - public-public blending, through which ODA (and other public finance, according to some definitions) is combined with public resources, and
  - public-private blending, through which ODA (and other public finance, according to some definitions) is combined with private resources.
- Project beneficiaries: restricting the definition based on the nature of the project beneficiaries seems arbitrary. Perhaps it can be useful in some contexts, e.g. to define the facility's objectives. For example, the GFF Trust Fund provides resources to the public sector only. But the nature of the beneficiaries does not affect the mechanics and inputs of blending projects.

We expect an **official OECD definition of blending to be approved in the coming months**. It appears that the distinction between public-public and public-private blending has been subject to a lot of debate among OECD members, with some of them advocating for public-private blending to be considered in the definition.

## Other concepts

Part of the confusion about blending is that other terms are sometimes used to define similar ideas. Terms such as 'leveraging', 'mobilizing' and 'catalysing' often come up in the context of development finance and/or are used interchangeably.

In general, these concepts refer to the mechanics of a process, whereas blending tends to identify a specific population of projects that work through these mechanics. For example, leveraging has generally been defined in the context of development finance as the 'use of development finance and philanthropic funds to attract private capital into deals'.<sup>10</sup> The idea of leveraging is also generally used to refer to the ability to attract private capital, although as discussed in the section on leveraging ratios below, there seems to be some confusion about this. By comparison, the definitions of blending usually include additional elements related to the origin of the finance involved in the process (ODA, combination with other types of finance, etc.) that restrict the population of projects it can be applied to. The clearest example is that the concept of blending is often restricted to projects involving ODA, whereas the terms 'mobilizing', 'leveraging' and 'catalysing' are often applied to several different forms of development finance.

In any case, there is no standard definition of these different concepts and so their meaning can change depending on the context. For example, often the term 'catalytic' is used to define investments that have a demonstration effect and pave the way for others to follow.<sup>11</sup> This term denotes a very specific type of investment, independent of the type of finance involved.

The OECD is currently trying to harmonize definitions and use of many of these concepts as part of the ongoing work on Total Official Support for Sustainable Development (TOSSD).<sup>12</sup> This process aims to develop a common definition and a methodology with which to estimate the real contribution of developed countries to development efforts. In addition to ODA, TOSSD plans to include several other types of flows (private investment, export credits, etc.).

The concept of public-private partnerships (PPPs) is sometimes used in documents dealing with blending, but it often generates considerable confusion. In reality, there is no universal definition of PPPs. They are generally defined through the combination of three elements:<sup>13</sup> a medium- or long-term contractual arrangement between the state and a private sector company; an arrangement through which the private sector participates in the supply of assets and services traditionally provided by government, such as hospitals, schools, prisons, roads, energy, etc.; and an arrangement involving some form of risk sharing between the public and private sector. Thus, the term PPP refers to a type of project and, in particular, to certain contractual aspects of the relationship between the parties involved. By contrast, definitions of blending usually refer to relationships between different forms of finance (e.g. ODA combined with public or private finance) and generally pay little attention to the parties involved. The main reason PPPs are mentioned in blending discussions is because of initiatives that use blending in support of PPPs.<sup>14</sup>

## 1.2 HOW DOES BLENDING WORK?

The essential **idea behind blending is that a grant or grant-like contribution can be used to remove barriers to public or private investments.**<sup>15</sup> This report focuses on investments in developing countries. Common barriers to domestic and international investment projects in developing countries include:<sup>16</sup> poorly functioning local financial markets (e.g. lack of capital, expertise in certain areas, etc.); knowledge and capacity gaps (poor understanding of developing countries' markets and local risks); and political and financial uncertainty (e.g. poor regulatory environment, exchange-rate fluctuations, long time frame for achieving returns, etc.). Some authors consider the risk/return profile of the project another type of barrier; however, it is perhaps best defined not as barrier but rather as the mechanism through which different barriers affect investors' decisions. For example, political uncertainty increases the risks of a project and thus makes the project implementation less likely in the absence of large returns.

Similarly, an investor's lack of local knowledge can make it difficult for the investor to assess the risks of a project and can lead conservative investors to overstate those risks. Project costs can also be affected by, for example, the lack of sufficiently developed local financial markets. This usually tends to increase the costs of finance, which leads to an increase in project costs that can erode potential returns.

The use of different types of financial instruments in blending projects results from two different factors linked to the nature of the underlying projects. First, different financial instruments help to tackle a wide range of investment barriers, even if they all ultimately seek to affect the risk/return profile. Table 2 illustrates the most common types of instruments and describes how they can affect the risk/return profile of a project.

**Table 2: Selected instruments and the mechanics of blending**

Instrument	Description: Use of ODA
<i>Investment grants</i>	These cover specific costs and activities in order to decrease overall project costs and increase chances of success. They are usually part of a larger package and are used mostly to purchase or upgrade existing fixed capital, such as tools or facilities. Some specific forms, such as interest rate subsidies, can help lower the costs of finance resulting from underdeveloped local financial markets.
<i>Technical assistance</i>	Various uses. It can do the investor's homework, thus lowering the high transaction costs and risks for investors linked to new projects or in uncharted territories. It can also help improve the quality of the project, for example, by funding impact studies, thus increasing the likelihood of success – for instance, a study of the potential increase in project productivity with the provision of a new tractor and storage space to attract private investors.
<i>Loan guarantees</i>	Protect investors against losses and/or improve the financing costs (government guarantees reduce borrowing costs), e.g. the new equipment attracts private investors, but they still think the risk is too high, so the public sector provides a guarantee of payment should the expected increase of productivity not materialize.
<i>Structured finance: first loss piece</i>	Absorbs risks by making the public entity the first to take losses that may occur should the project incur losses. For instance, a project fails and does not leave enough capital for all the investors to be paid back. The 'first loss' investors (in this case, the public entity) lose their money first.
<i>Equity investment</i>	Equity investors take a percentage of the ownership of the company or project. The money provides funding for the project, demonstrates viability and provides other comfort for investors (for example, investors could see this as a guarantee of the quality of the project, or of a reduction in risks that the host government might interfere). For instance, the public sector buys 20 percent of a company in the hope that private investors will see this as a sign of confidence and follow suit.

Source: Adapted from OECD-WEF (2015).<sup>17</sup>

Second, there is often a relationship between the choice of the financial instrument, on the one hand, and the maturity of the company and the market where the investment is taking place, on the other. Some authors classify the market segment of investment projects into five different areas. In general, technical assistance and grants would play an important role in the preparing and pioneering stages, where high transaction costs and high risk are involved. Risk-absorbing instruments are most likely to be used in the pioneering and facilitating stages, where returns are uncertain and unproven. Equity investments tend to be more important in later stages so that they may serve to consolidate projects and attract additional capital. Table 3 provides detail on these different stages.

**Table 3: Maturity of investment projects caption**

Preparing	Pioneering	Facilitating	Anchoring	Transitioning
Significant initial costs, coupled with uncertain viability and visibility into whether a project will be approved for construction/operation or a company will launch, can cause investors to restrict their capital exposure.	In very early-stage investments where entrepreneurs are experimenting with new ideas, products and business models, private investors may have trouble justifying the time and funds to support innovation.	Projects and enterprises seeking growth require capital to fund expansion and/or ongoing operations. Although they may offer strong development returns at this stage, the risk-adjusted returns for private investors may be below commercial thresholds.	As mature or credible enterprises/projects seek capital for scaling or replicating in critical areas of development, capital providers may be hesitant to invest because of real and perceived macro risks, such as political, sectoral and currency risks and uncertainty about exits.	Projects and enterprises at a very mature stage are well suited for commercial viability and access to commercial markets. However, many private investors lack access to a pipeline of deals that are sufficiently sizeable and scalable to fit within investor mandates.

Source: OECD-WEF (2015).<sup>18</sup>

## Volume of blended finance

There is considerable **uncertainty about how much ODA is currently being channelled through blending facilities and instruments**. Different authors adopt varying definitions of blending and approaches to measure the flows involved.

An unpublished evaluation concluded that aggregated donor blending commitments in the period 2002–2014 add up to approximately €12bn ODA.<sup>19</sup> This study is based on a definition of blending – the fourth definition above – according to which blending uses ODA, does not require combination of ODA with other sources, and focuses exclusively on private sector projects. The figure is based on donor commitments to blending facilities and funds and, as a result, fails to capture amounts of ODA that are directly blended by donors.

Another study reached the conclusion that ODA disbursed for blending purposes amounted to approximately €1.4 bn (\$1.8 bn) in 2013 and that aggregated disbursements in the period 2005–2013 were €9.4 bn (\$12.5 bn).<sup>20</sup> During that same period, DAC members' ODA totalled more than \$1tn,<sup>21</sup> so the blending figure cited was about one percent of DAC ODA. This figure is probably quite conservative, because it measures the amounts of ODA disbursed by donors through instruments that are used for blending purposes. Consequently, it does not necessarily capture all ODA disbursements to dedicated blending facilities, since they will simply be reported as an ODA grant. Moreover, the methodology does not measure the amount of money used for technical assistance, which can be significant. For example, as we discuss in Chapter 2, 43 percent of the projects funded through the EU blending facilities in the period 2008–2014 received TA exclusively.

The limitations of the efforts presented above, and the absence of a broadly accepted approximation of a global figure for blending, suggest that **current ODA tracking mechanisms are ill equipped to record and account for blending operations**. The limitations of the OECD tracking system are discussed in additional detail in the source behind the second estimate above. Confronted with the difficulty of performing a comparative global analysis, most authors tend to restrict their figures to a few specific facilities or donors.

The ongoing **TOSSD process led by the OECD will provide an improved framework for tracking blending projects**.<sup>22</sup> Nonetheless, it is not yet clear whether the tracking system should capture mobilized private flows in addition to official flows. In addition, as we will discuss,

the TOSSD definition could result in artificial aid inflation. Additionality and leverage ratios would become crucial issues to prevent artificial inflation, if both private and official flows were to be captured by TOSSD.

## Additionality

One of the main **challenges of blending instruments is ensuring projects applying for support actually require some form of subsidy.** On the one hand, the risk/return profile of an investor (i.e. the minimum expected return for a given risk) is generally unknown, and it can be difficult to ensure that only projects requiring some form of subsidy are supported. The possibility of getting some form of subsidy through blending is a guarantee that project beneficiaries will apply as long as they are eligible, but it can be difficult to differentiate projects that do require a little push to go ahead from those simply looking for enhanced returns. In some markets, competition among project beneficiaries can help to eliminate investors looking for a boost to their returns. However, in developing countries and in certain sectors it can often be difficult to find comparable projects.

On the other hand, public finance institutions of the kind that provide ODA for blending or that initiate blending projects (for example, development finance institutions, or DFIs, have a mandate to focus on development projects) usually require very advanced project plans from the beneficiary, something that requires a substantial investment of time and money. Often projects applying for support are in advanced stages of development, to the extent that partners have already been identified and contracts awarded by the time the application is submitted. The more advanced a project is, the more likely it will go ahead without additional support. In this context, how does the grant or grant element affect the project?

**The concept of ‘additionality’ refers to the added value of a specific form of finance.** In the context of this research, additionality is defined as ‘the unique inputs and services that the use of ODA funds provides in addition to those delivered by market and non-market institutions’.<sup>23</sup> Additionality can be broken down into two main components:

- Financial additionality – blended finance is necessary to ensure the project gets finance and can be implemented;
- Developmental additionality – blended finance helps the project achieve better development results. Development additionality can be broken down into smaller components (see Annex II).

**Both types of additionality are important when ODA funds are involved.** Proving financial additionality is important because its absence means that ODA is not providing any added value compared with other forms of finance (i.e. the project did not require the blending grant to go ahead). Accordingly, it is possible that, in the absence of financial additionality, the ODA grant could be substituting other forms of finance. However, one could argue that from a development perspective, development additionality should be prioritized over financial additionality – that ODA is used in a way that maximizes the development impact of the project. It is hard to imagine a project that cannot be improved to increase its developmental impact and in which ODA only provides some form of financial value.

Ultimately, it is the balance or the combination of both types of additionality that should come together to provide a window into a blending project’s real additionality. As we will discuss, many donors tend to separate the two concepts and focus primarily on the financial additionality aspects of blending projects. But from a theoretical perspective, one could consider two extremes and still justify them from a development perspective. One extreme would be a project that is not additional from the financial perspective but that increases its development impact significantly, thanks to the ODA grant. The other extreme would be a project with a given development impact that could not have happened without the grant but that does not see its development impact increased because of the grant. In practice, the reality will always be

somewhere in between. For this reason, we should combine these aspects when assessing additionality.

### Measuring additionality

A number of evaluations suggest **that donors too easily assume additionality**.<sup>24</sup> In general, people assume that an investor's search for public support from a DFI is a sign that it cannot get private financing and thus is evidence of financial additionality.<sup>25</sup> This argument is based on the belief that stricter project monitoring, social and environmental standards and other requirements create additional costs for investors that should discourage them from requesting public finance when private finance is available. However, this argument does not necessarily consider other positive effects of public finance, such as the signalling effect of some institutional investors and/or the possibility of using the backing from public investors to attract private finance on better terms.

Measuring additionality is difficult. This section focuses on the main limitations of current practices. First, **there are no harmonized definitions, approaches or methodologies to measure additionality**. The lack of harmonization makes it impossible to compare projects implemented by different institutions and draw lessons. Financial additionality is not always defined, as we have already suggested. A literature review of additionality in DFI projects found that many institutions use definitions according to whether the investment provided access to finance on better terms, helped to access additional sources of finance, contributed to tackling the risk perceived by other investors or seemed useful for the business from the point of view of technical assistance.<sup>26</sup> Similar problems also affect the measurement of developmental additionality. Existing approaches are not comprehensive and usually look at one or a few of the following elements: improvements in project design, improvement in the projects' social and environmental standards (probably the most common) or operational aspects, such as the use of specialized advice to make up for the knowledge and skills gaps in the project.<sup>27</sup>

Second, **additionality is generally measured ex ante and on the basis of the information provided by the project beneficiary**. As shown in Annex II,<sup>28</sup> applications for project funding from the EU blending facilities usually require an explanation of the investment's additionality. Apart from the level of detail required, the approach is based on the interested party's self-reporting; from the information available, it does not seem that additionality is assessed again during the implementation of the project. Judging from existing ex post evaluations, donors tend to rely on the initial 'project accounts' and subjective perceptions. And as we have just mentioned, they do not always have a clear and consistent methodology to measure additionality, especially when it comes to development additionality.<sup>29</sup>

Third, there is a **strong focus on financial additionality and a weaker one on development additionality**. Some of the evaluations conducted by the EC on the EU blending facilities and by Norad on the Health Results Innovation Trust Fund (HRITF) focus primarily on financial additionality.<sup>30</sup> In cases where evaluators tried to measure development additionality, the methodology was not clear or was based on narrative accounts and subjective opinions.<sup>31</sup>

Ideally, the question of **additionality should not be considered one with a binary, yes-or-no answer**. Most documents and evaluations consider additionality as a yes or no question,<sup>32</sup> but a realistic view of how projects are designed, and the uncertainties surrounding the measure of additionality, suggest that it be considered a variable measure within a continuum range. Such an approach would be more objective, while also providing an indication as to what extent the contribution was important to making the project happen or influencing it in a way that improved its development results (e.g., if additionality was above a certain threshold). Methodologies based on this idea have been developed in the area of financial additionality.<sup>33</sup> They are designed to work on an ex post basis and can be relatively burdensome to implement. Even so, they should probably be further explored and harmonized, because of the quality and granularity of the information they provide, something that is essential if we are to glean greater insights and improve the design of future projects.

Additionality could also be constructed as a comparative measure for assessing the impact of a blending project in relation to the alternative use of both the grant element and the public finance from DFIs. However, there are important methodological and technical limitations that make this exercise extremely difficult. The most important is the choice or design of the alternative scenario (what are we comparing the project with), and the inherent uncertainty and variability in the approaches used to estimate development impacts.

## Leveraging ratios

Leverage ratios are a controversial area in development finance. A leverage ratio can be defined as the relationship between the amount of finance mobilized and the amount of finance that has been injected (essentially ODA or concessional finance in the context of this report). This section discussed the main underlying problems; Chapter 2 provides additional evidence about the way facilities account for other forms of finance they help mobilize or leverage, and the inconsistency of their approaches.

**There is not one but several different leverage ratios in each blending project**, depending on the values we compare. It is possible to imagine several different types of leverage ratios, for example. They are:<sup>34</sup>

- Investment leverage ratio – value of investment divided by total amount of ODA support provided by the facility.
- Financial Institution leverage ratio – amount of financing from financial institutions (e.g., leading and co-leading DFIs in the case of the EU blending facilities) divided by total amount of ODA support provided by the facility.
- Private financing leverage ratio – amount of private sector financing mobilized as a financial input into the investment project divided by the amount of ODA support provided by the facility.
- Public finance leverage ratio – amount of public finance, including ODA and finance coming from other public investors, between the total amount of finance provided to the final recipients.

The use of some of these leverage ratios involve bold and unsubstantiated assumptions about the impact of the blending element. The use of one or another leverage ratio depends on which two elements one wants to measure. For example, the EU blending facilities tend to focus on the first approach on the list in public communications and measure the leverage ratio between the amount of ODA and the total investment costs. This approach suggests that ODA has leveraged finance from DFIs and that, in turn, DFIs' finance has leveraged other forms of finance to make the project happen. In practice, this is probably a very bold statement and one that would be difficult to substantiate with evidence. Starting in January 2016, the EC also requests projects to report on the 'financial institution' and 'private financing' leverage ratios.<sup>35</sup>

In reality, projects would be best assessed through the combination of the 'financial institutions leverage ratio' and the 'public finance leverage ratio'. This combined approach would not attribute all benefits to the ODA grant; it would provide a more realistic view of the project mechanics. Measuring the leverage ratio between the grant element (ODA) and the finance provided by the DFIs leading and co-financing the project provides useful information about the blending effect. The public finance leverage ratio would provide complementary information, because it can be used to estimate the impact of public finance on the overall project finance.

Some authors argue leveraging can only occur in the case of case of public-private blending projects and that it cannot be applied to public-public blending. (See the section on definitions of blending). For example, it is not clear how the combination of ODA with DFI funds (e.g. the EU blending facilities) leverages any finance, since both ODA and DFI finance (mostly re-invested earnings) are to be spent on development projects.<sup>36</sup> The only way in which such a claim could make sense is by linking it to the question of additionality (see below) to argue that there is an

added value in the blending project (ODA + DFI finance) compared to alternative uses of ODA and DFI finance independently.

Leverage ratios only make sense when some form of additionality can be demonstrated; they cannot be used as an indicator of financial additionality. As we discussed in the previous section, the blending of ODA only makes sense when the additionality of the project can be demonstrated. This means that leverage ratios cannot be used as an indication of additionality, as is sometimes the case with DFIs.<sup>37</sup> It is common to see high leverage ratios used as an indicator of significant financial additionality. This approach is not only wrong but it is also misleading. In reality, a high leverage ratio (e.g. 1:50) means the blending element is heavily diluted, and the more diluted it is, the less likely it is to influence the project to a significant extent. For example, the EC claims that the LAIF facility had an average leverage ratio of 1:36 in 2015.<sup>38</sup> (See Chapter 2.) This is mainly the result of the EC contribution of €15m (plus €5m in technical assistance the previous year) to a geothermal energy project budgeted at €1.1bn. The leverage ratio for this project alone would be more than 1:50. In this context, how do we value the EU contribution to the project, especially considering that it involves more than nine different donors and DFIs, in addition to the project developers, and that these public investors have often committed well over 10 times as many funds?

**Leverage ratios provide another argument for the use of a continuum measure of additionality.** The use of a leverage ratio of any kind implies that one type of finance would not have existed without the other. This is another binary claim in which all other forms of finance would not have been mobilized. The use of a continuum approach in the case of blending facilities, even if it is on an ex post basis, will help to adjust the amount of the project finance that can be attributed to the ODA grant and provide a more accurate idea of its financial impact. For example, a project with 65 percent financial additionality should adjust the denominator to reflect the real impact of the ODA grant. This approach would also be helpful in the case of the compounded leverage ratios we have already discussed. In addition, the assumption behind the use of the 'investment leverage ratio' we have discussed might not be so bold if it is adjusted to account for the additionality of the ODA in relation to the finance partners and of the finance partners in relation to the project costs. An example of this would be if the additionality of the ODA grant in relation to the lead and co-financing institutions were 60 percent and the additionality of these institutions in relation to the project costs were 50 percent. With a continuum approach, the result can be adjusted by 30 percent (60 percent of 50 percent) to provide a much more realistic view of the project. One important barrier to this approach is that for it to be effective, any efforts in this direction must be harmonized across donors.

This discussion is relevant when it comes to measuring the level of finance mobilized in favour of development by donors. The inadequate or unsubstantiated use of leverage ratios can provide a false and inflated idea of the actual amount of finance development actors can mobilize.

## 1.3 HOW IS BLENDING USED?

This section deals with two areas related to the implementation of blending projects. The first part deals with quantitative aspects associated with the accounting of blended finance. Without reliable, comparable figures, it is difficult to assess the performance of blending operations. The two last parts discuss qualitative aspects of institutional-level blended finance that have a significant influence on its potential to achieve development outcomes.

### Measuring mobilized resources

By looking at how donors account for or estimate the amount of these other form of finance they claim to mobilize, this section complements our discussion of additionality and leverage ratios,

which focused on the relationship between ODA and others forms of finance. This section also discusses existing initiatives designed to improve the methodology.

Donors do not seem to have a consistent way of measuring the level of resources they mobilize.<sup>39</sup> In some cases, they use a range of methodologies to measure the same flows. In other cases, they fail to use a consistent approach to measure mobilization across different types of flows (e.g. equity investments in investment funds). In addition, sometimes there is simply no methodology to account for some types of instruments, such as guarantees. We examine additional evidence about how this happens in practice in Chapter 2, where we focus in detail on the sample of three facilities.

The OECD is currently working on different methodologies to measure the amount of finance mobilized through complex or combined instruments.<sup>40</sup> Although the methodology focuses on development finance in general, it is relevant to mention it in this report, because it will allow donors to measure mobilized flows through blending projects and deal with some of the problems mentioned above. The methodology is expected to have a significant impact on how and what donors report as development finance and should be **implemented in the DAC reporting systems beginning in 2017.**

Because of the current proposal's technical complexity, we are not able to analyse it fully in this report. However, it proposes a range of ways to measure the several elements and discusses some of their advantages and drawbacks. These elements include:

- Credit lines – used in particular to increase small- and medium-size enterprises' (SMEs') access to finance in developing countries.
- Project finance structures, where multiple public actors and financial instruments (e.g. debt, equity, guarantees) interact.
- Direct investment in companies (without any form of intermediary) through different; and instruments or a combination of them (combining equity, mezzanine finance, and loans).

The main risk associated with the OECD process is the possibility of overvaluing the amount of finance mobilized by donors and other public actors. The content of the paper is highly technical, but some of the options it discusses have a huge impact on the total amount of finance reported as mobilized by OECD members, including through blending projects. For example, in the case of credit lines, the paper wonders whether the approach should be restricted to the financial impact of the credit line on the local financial institution that benefits from it, or whether it should include the loans from the local financial institution to the beneficiaries, something that could multiply the amount of reportable finance. In the case of guarantees, the project acknowledges that they have a financial impact only when they are triggered, yet it proposes accounting for their value by measuring the gross exposure (the maximum amount payable by the guarantor). Additional research would be required to assess the actual impact of these and other proposals in the paper.

At the same time, the process is also likely to **bring significant benefits to the accounting of development finance flows, including blending.** For example, it would help to address double counting of the same finance by multiple institutions. One key element in the OECD paper is how to distribute mobilized finance among different public actors (e.g. DFIs). This would prevent multiple DFIs from claiming they have mobilized the same finance. Agreeing on a common methodology will also increase the consistency of the figures reported by donors and allow a more accurate cross-institutional analysis of development flows.

The methodology also provides an **opportunity to allow donors to report blending activities on a project-by-project basis in the long term.** As we discuss in Chapter 2, one of the reasons why donors use the capital contribution approach (counting as ODA all money injected into the facility) to report ODA for blending is that there is no methodology to account for ODA combined with some financial instruments (e.g. guarantees). The work of the OECD opens the door for accounting for these instruments, though it is only one step of the process. The current

work does not discuss the estimate of grant elements, something that would be required to account for ODA flows. In a long-term scenario, the possibility of reporting on blending projects individually would allow a much more detailed analysis of the blending process and help to increase accountability of blending activities.

The OECD is also making changes to the reporting of ODA projects supporting the private sector. These changes could increase the amount of ODA that can be reported by donors and provide an incentive to focus on the private sector. In particular, the OECD is reviewing the risk premiums used to estimate the grant element of private sector projects.<sup>41</sup> According to the OECD, the interest rate of private sector projects is higher than that of comparable public sector projects. That is, the private sector is more risk averse or expects higher returns than the public sector. Thus, if the rate the OECD agrees to use to calculate grant elements in the public sector is not adapted to reflect the higher premium when working with the private sector, donors may well under-report the grant element of private sector projects. The OECD has proposed a premium for private sector projects that is adapted to the income level of the country where the project takes place and that is generally linked to the risk perceived by investors: one percent for projects in upper-middle-income countries, two percent in lower-middle-income countries, and three percent in least developed and low-income countries. Although this measure tries to account for a financial reality, and might incentivize the flow of resources to low-income countries, it will result in an increase in the amount of ODA that can be reported by donors engaging with the private sector, compared with the public sector. Thus, the possibility of reporting more (a higher grant element) by working with the private sector could represent an incentive for donors to focus on this type of project.

## Project selection

Institutions adopt and implement a variety of criteria for selecting blending projects. Given the diversity of potential approaches, rather than focusing on the actual differences, this section looks at the factors that have an impact on the selection of projects and the particularities of blending projects. Some examples of the actual differences between different facilities can be found in Chapter 2.

People tend to think about project selection as checking compliance against several criteria defined by the facility, but, in reality, project selection results from the interaction of factors operating at different levels. These factors include:

- **Eligibility criteria.** These are the visible side of project selection. They translate into specific guidelines the restrictions and preferences imposed by the other two factors.
- **Mandate of the facility.** This refers to the goals, limitations, and other criteria that regulate the operations of the facility and were set when the facility was created. The mandate can include criteria such as risk/return profile and profitability, the type of instruments it can use, preferential treatment for certain companies or countries, geographical scope, etc.
- **The broader regulatory framework** that regulates the operations of the manager of the facility. Blending facilities are usually managed by units within institutions and, as a consequence, the limitations and restrictions that apply to those institutions also apply to the facility. For example, the World Bank manages the GFF Trust Fund and, as a consequence, projects are subject to a number of World Bank regulations and policies (e.g. procurement, monitoring and evaluation, and complaints). The broader policy framework can have an impact similar to that of the mandate (profitability, instruments, etc.), and it also tends to influence the monitoring and evaluation framework.

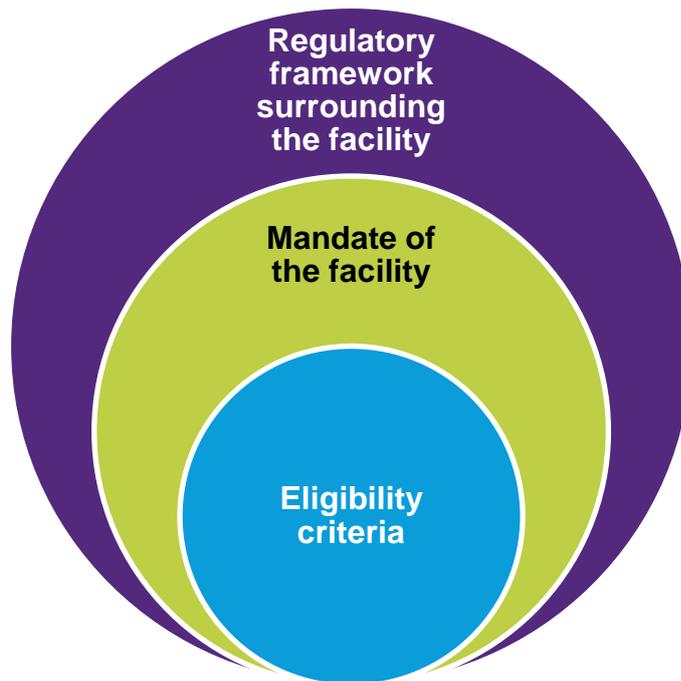
Figure 1 shows the interaction of these factors in the project selection process.

In practice, the **selection of blending projects is often the result of the interaction of two project selection processes** described in Figure 1: one that emerges from the facility and one that results from the involvement of other institutions that act as intermediaries and have their

own mandate and systems in place. This is the case with the EU blending facilities, where project selection is influenced by the interaction of their own criteria with those of the DFIs that screen and propose projects to the facility.

This interaction can result in additional restrictions, since only projects falling within the area where both processes overlap would be eligible. For example, although the EU blending facilities could use many different financial instruments, Chapter 2 shows that many financial instruments are barely used and some, such as insurance instruments, are not used at all. It is possible that this tendency to focus on a few instruments is the result of restrictions in the operations of the leading DFIs.

**Figure 1: Factors influencing the selection of projects**



Source: Author

The **interaction between lending facilities and other institutions can also influence other aspects, such as the expected return.** Many of the blending facilities do not necessarily expect a return on their investment, since they are using grants and grant-like instruments, but they might be affected by the self-sustainability or profitability requirements of other institutions involved in the process. For example, DFIs are required to balance the risks in their portfolios, something that might affect the selection of a given project. It is possible that a blending grant is proposed by a DFI to lower the risk profile of a project to avoid upsetting the balance of its portfolio, instead of making a decision based on the needs of the projects only.

## **Transfer of responsibility at a cost for development effectiveness**

One of the **most distinctive features of blending mechanisms is that donors have transferred most of their responsibilities to other actors.** Chapter 2 provides some clear examples: The EU blending facilities rely on lead DFIs to perform the tasks related to project design and management, including the preselection of projects. The DGGF is managed from the beginning by a government agency, an export credit agency or the private sector, depending on the funding window. The management of GFF Trust Fund projects is tied to operations implemented by the International Development Association (IDA) or the International Bank for Reconstruction and Development (IBRD), both of which are part of the World Bank Group.

The transfer of responsibility creates tension at the institutional level among the expectations, policies and practices of ODA donors on the one hand, and those of the actual managers on the other. Although ODA donors have committed to implementing a number of development effectiveness principles (ODA and development effectiveness agenda) and are to a certain extent held accountable for delivering on them, many other institutions have not. It is not surprising that they do not have the systems in place to implement them. DFIs and other institutions involved in blending also have a different mandate, which can be difficult to align with development effectiveness principles. Chapter 2 provides additional evidence suggesting that some of the limitations of blending projects around the issues of ownership, alignment and accountability are to a large extent the result of this tension.

**Additional conflicts arise in some cases at the implementation or project level.** Blending projects sometimes involve or target the private sector. For a variety of reasons, businesses pursuing a commercial interest might find it difficult to comply with the same levels of public scrutiny that development effectiveness principles impose on donors (even if donors sometimes fail to comply). Moreover, heavy reporting and monitoring requirements increase the projects' costs and can act as a deterrent. As a result, projects where the private sector is involved can increase tension among the practices donors have committed to implementing when using ODA (i.e. development effectiveness principles).

This discussion raises a number of questions for future research. For example, is it reasonable to expect institutions involved in the management of blending projects to implement the same standards as donor agencies? And if not, what is a reasonable minimum? So far, little research has been conducted about the impact of blending facilities on the guidelines and policy frameworks of managing institutions.

## 2 ANALYSIS OF THE SAMPLE BLENDING FACILITIES

This chapter examines a sample of three different facilities. It aims to complement the evidence provided in Chapter 1 and illustrates some of the challenges discussed above with specific examples. The structure of this chapter is different from that of Chapter 1, and it is not structured around the three main research questions animating this report. The nature and level of the evidence means that the analysis of certain features often provide evidence that is relevant for answering more than one question.

For practical reasons, individual EU blending facilities are discussed independently. In the absence of a sufficiently large sample of GFF Trust Fund projects, the predecessor HRITF has been used as a proxy for assessing some of the features of the facility. Whenever this is the case, the origin of the data is clearly indicated in the text. The Africa Investment Facility (AIF) does not feature in all of the tables below, since no project data have yet been released by the European Commission outside the reporting done by the ITF.

### INTRODUCTION TO THE THREE FACILITIES

This section summarizes the main features of all three facilities, including the existence of multiple funding windows. It also provides information about the target sectors and the geographical scope, and whether they rely on other partners for implementation. Table 4 summarizes this information.

**Table 4: Basic information about the facilities in the sample**

Facility and sub-facilities	Country	Start date	Total funding	Target sectors	Geographical scope	Project partners
<i>Asia Investment Facility (AIF)</i>	EC	2012	€62.3m ODA 2012–2014.	Multisector	19 eligible countries.	DFIs
<i>EU-Africa Infrastructure Trust Fund (ITF)</i>	EC	2007	€647.7m ODA from EC and €164.3m from EU countries.	Multisector, focus on infrastructure	Countries in sub-Saharan Africa that were signatories of the ACP-EU Partnership.	DFIs
<i>Africa Investment Facility (AIF)</i>	EC	2015	N/A. Replaces the ITF from mid-2015.	Multisector	All African countries eligible under the European Development Fund.	DFIs
<i>Latin America Investment Facility (LAIF)</i>	EC	2010	€227.7m ODA in 2009–2014, €30m in 2015.	Multisector	18 countries.	DFIs
<i>Neighbourhood Investment Facility (NIF)</i>	EC	2008	€975.5m ODA 2018–2015. €295.04m ODA in 2015.	Multisector	Countries covered by the European Neighbourhood Policy.	DFIs
<i>Investment Facility for the Pacific</i>	EC	2012	€10m ODA 2012–2015, €20m ODA	Multisector, focus on green infrastructure	16 eligible countries.	DFIs

(IFP)			2014–2020.	(2012–2015) and regional integration (2014–2020).		
<i>Investment Facility for Central Asia (IFCA)</i>	EC	2010	€145m ODA 2010–2015.	Multisector	Five eligible countries.	DFIs
<i>Caribbean Investment Facility (CIF)</i>	EC	2012	€70.2m ODA 2012–2015.	Multisector	15 Caribbean countries of the Africa, Caribbean, Pacific-EU Partnership.	DFIs
<b>DGGF</b>						
<i>Dutch SMEs Investing</i>	Netherlands	2014	€700m ODA 2014–2017, starting with €100 in 2014 and increasing progressively. Revolving fund.	Dutch SMEs investing in developing countries.	68 countries.	Dutch SMEs
<i>Dutch SMEs Exporting</i>	Netherlands	2014		Dutch SMEs exporting to developing countries.	68 countries.	Dutch SMEs
<i>Investment Fund Local SMEs</i>	Netherlands	2014		Supports investment funds aiming at improving developing country SMEs' access to finance. Includes a TA programme called the Seed Capital & Business Development Programme (SCDB).	68 countries.	Investment funds
<i>Global Financing Facility (GFF)</i>	Combines recipient governments, donors, private sector, foundations, CSOs, etc.	2015	€192m ODA. Mobilizes financing for investment cases. Two key roles: a) Platform for alignment and coordination based on country-led investment plans. b) Grants through GFF Trust fund (see below).	Health. It is a platform that aims to improve and increase finance for reproductive, maternal, newborn, child, and adolescent health (RMNCAH) based on country-led investment cases.	62 low and lower-middle income countries. GFF started with four countries in the first wave and will add eight more in the second one.	
<i>GFF Trust Fund</i>			\$875m ODA from Norway, Canada and the Gates Foundation. Commitments from Japan and US (\$139m ODA) are country specific and not managed through the fund.			IDA and IBRD

Sources: Interviews, EC, GFF.<sup>42</sup>

## Basic figures

This section provides some basic information about the amount of ODA disbursed by each facility. Table 5 shows the total amount of ODA for all projects in the database, as well as the total amount of finance as reported by donors. One of the interesting findings is that if we compared the amount of ODA with the total amount of finance, there is a remarkable difference between the EU blending facilities and the HRITF/GFF Trust Fund. We explore this issue further in the next section.

**Table 5: ODA disbursements per facility for all projects in the database**

Facility	ODA (Euros in millions)*	Total finance (Euros in millions)
<i>EU Blending Facilities</i>	2200.5	47716.5
AIF	67.6	2120.8
CIF	68.6	535.2
IFCA	82.0	464.5
IFP	9.4	550.0
LAIF	232.0	6850.9
NIF	1021.1	24892.2
ITF	719.8	12302.9
<i>DGGF</i>	192	-
Dutch SMEs investing	46 (17 projects)	-
Dutch SMEs exporting	37 (18 projects)	-
Inv. fund local SMEs	109 (16 projects)	-
<i>HRITF + GFF Trust Fund</i>	369.7	2077.1

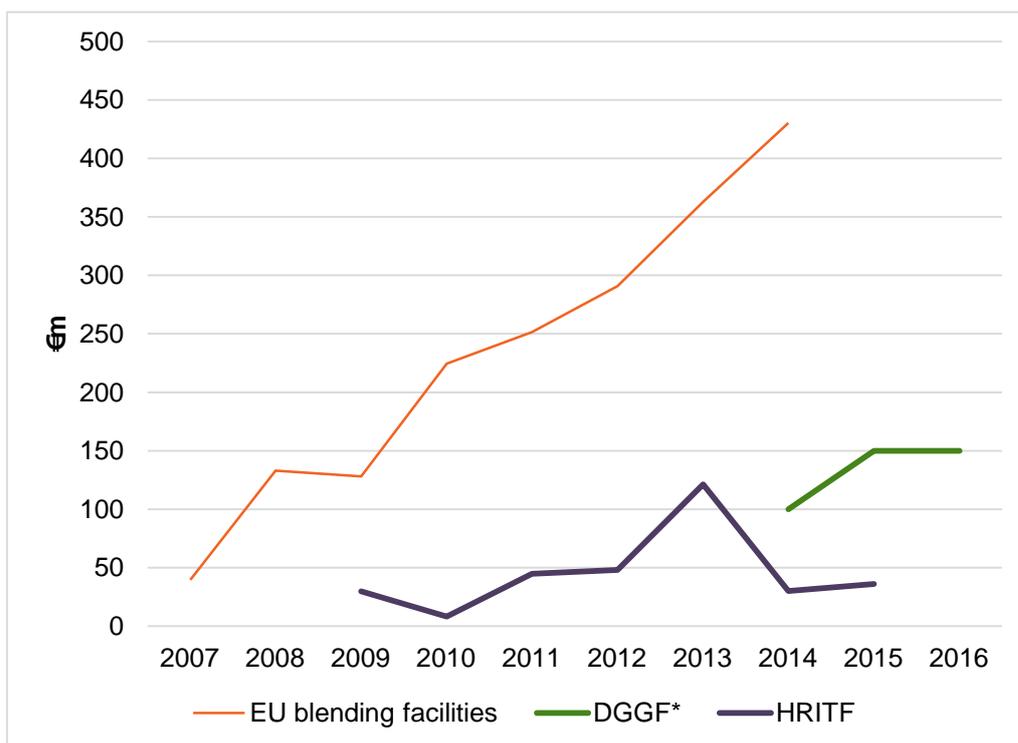
\* Amounts refer to the expenditure recorded in the database of projects compiled for this report and was closed in June 2016 (see Annex I).

Source: Author's calculations from data on facilities websites.

Figure 2 shows the amount of ODA disbursed by the different facilities over time. It shows a clear upward trend in the amount of ODA disbursed by the EU blending facilities. The figure stops in 2014, because the database does not contain all projects approved in 2015. Several facilities have not reported any projects approved in 2015 yet, and the database only contains 29 projects in 2015, compared with 39 in 2014, and 47 in 2013. The three projects approved in 2016 have also been excluded.

Since there are no disbursement data for a significant share of DGGF projects, the graph reflects the ODA allocations projected by the government. Actual expending figures are likely to be different, although they should be within a reasonable margin of error. The HRITF was progressively phased out after 2014 and replaced by the GFF Trust Fund. Unfortunately, there are only data for three GFF Trust Fund projects, and we have not included them in Figure 2.

**Figure 2: ODA disbursements over time**

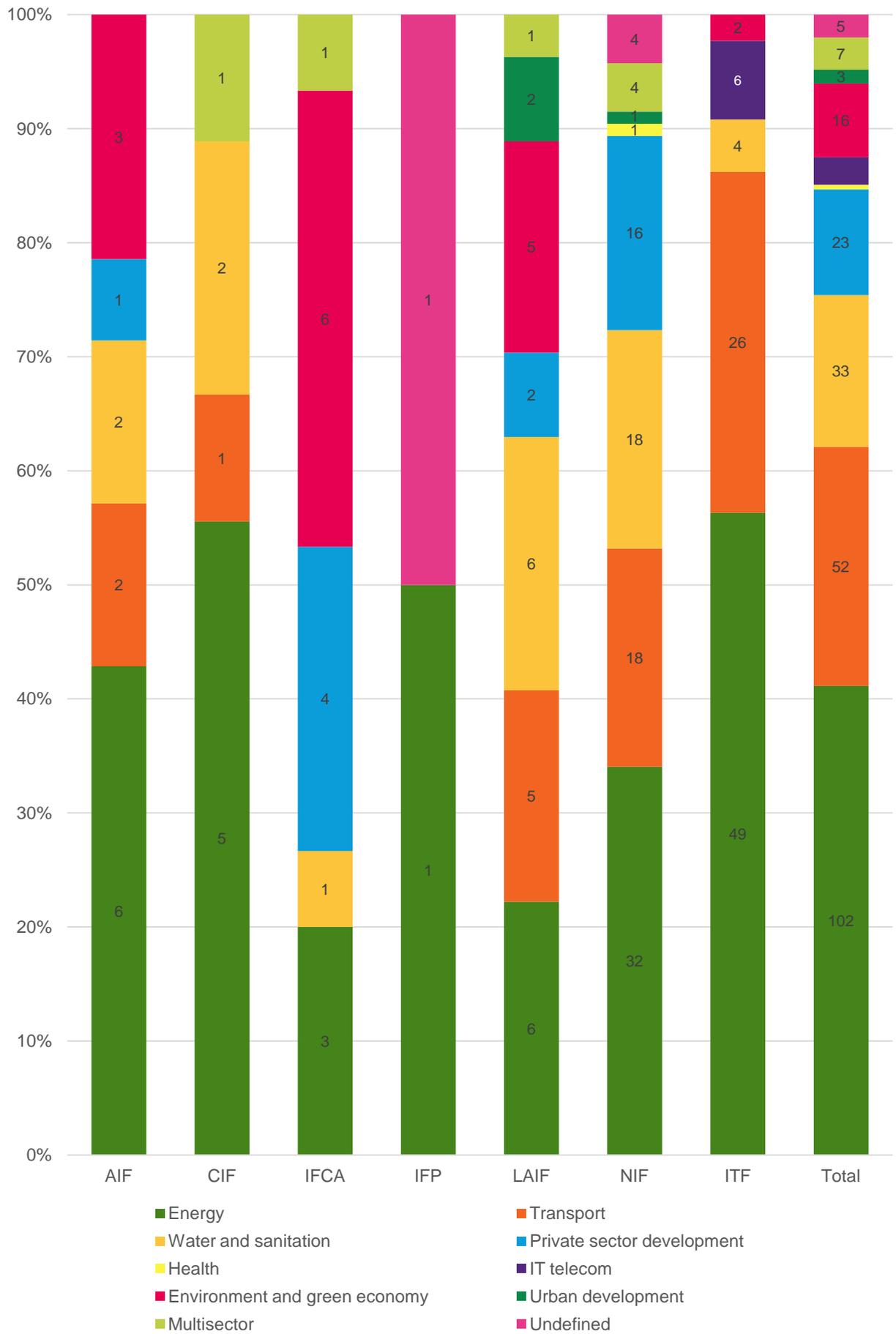


Source: Author's calculations from data on facilities websites.

## Sectoral focus

As we showed in Table 4, the EU blending facilities not have a very defined sectoral focus. However, our analysis of the project database, displayed in Figure 3, shows that there is a very high concentration in a few sectors. Concentration in the case of the ITF could be explained by the fact that it focuses on infrastructure investments, something that restricts the potential range of investments slightly. Four sectors account for 85% of all projects funded by the facilities: energy, transport, water and sanitation, and private sector development. Facilities with fewer projects tend to deviate more from this average, though energy is still predominant or very important in all of them. According to the European Commission, in approximately 90 percent of all blending projects, the beneficiary is the public sector, whereas in the remaining 10 percent, the private sector (i.e. a company implementing a project)<sup>43</sup> is the beneficiary. This figure is expected to increase in the future, at least as far as the number of projects is concerned; however, the public sector will likely remain the main beneficiary of the blending facilities. This marks an important difference from the DGGF, which always works with the private sector (see below).

**Figure 3: EU blending facilities projects, by sector**



Source: Author's calculations from data on facilities' websites.

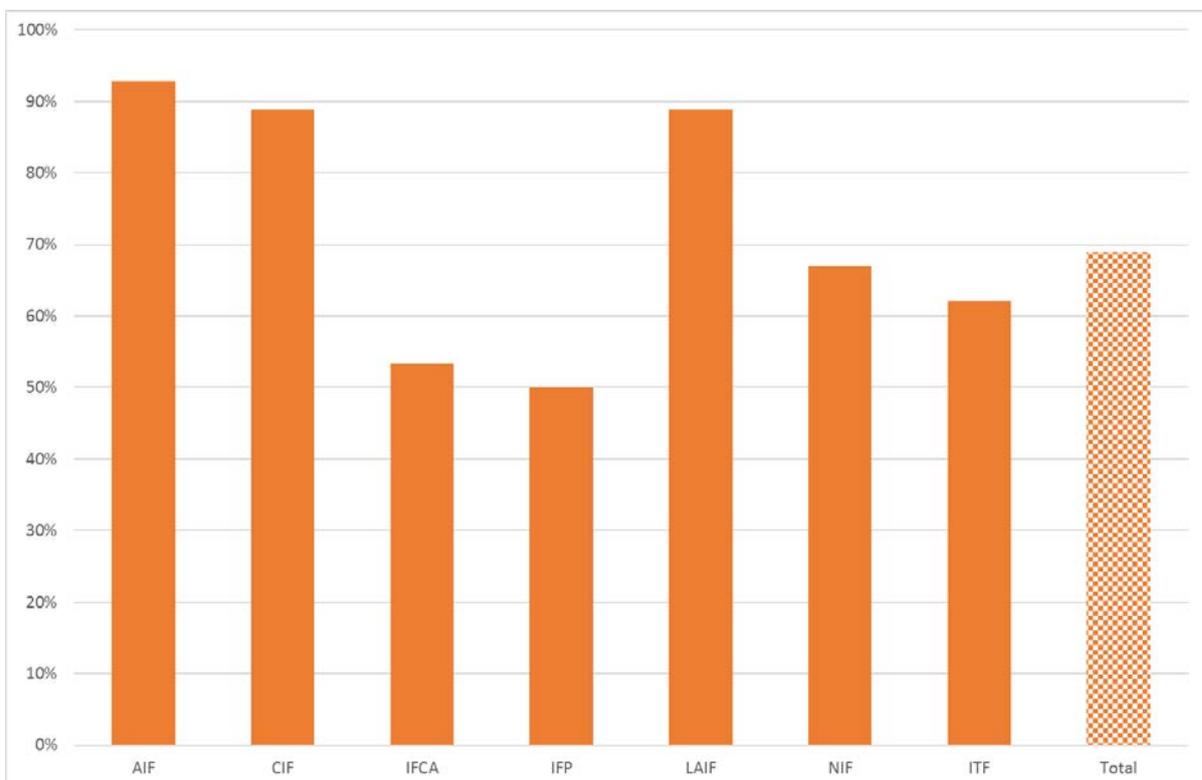
In addition to the target sector, the EC also provides information about whether each project includes an environmental or climate change objective, but the marker in that case is difficult to interpret. As seen in Figure 4, on average, 69 percent of all projects include an environmental or climate change objective, with a minimum of 50 percent and a maximum of 93 percent, depending on the facility. The marker seems to be interpreted broadly. For example, waste management, public transport and hydropower projects are consistently labelled with the marker. Most energy projects (84 out of 102) also include the marker, even if sometimes the environmental or climate component is not completely clear in the project description. For example, many road-building projects use the marker because it is widely thought they can increase access to disaster-prone or rural areas.

**The main objective of the DGGF is the promotion of the private sector.** As shown in Table 4, two of the funding windows focus on Dutch SMEs; a third supports investment funds working with SMEs in developing countries. The secondary focus of the DGGF investments has been assessed according to an analysis of the sector focus of the underlying investments. Out of the 32 projects assessed, three target the agriculture sector, one is related to fisheries, and eight are industrial projects with a connection to the agriculture sector (hatcheries, processing and mills). These data refer to the two funding windows involving Dutch SMEs. Projects funded through the investment funds' window have not been assessed, because they tend to target different sectors, and we do not have information about the individual underlying investees listed on the DGGF's website.

**The GFF focuses on the health sector.** Judging from the HRITF projects, the trust fund is likely to emphasize results-based projects.

Neither the DGGF nor the EU blending facilities has **a marker or other indicator that consistently captures the relevance of a project from a gender perspective.** However, since the GFF's mandate is to provide resources for the health of mothers and their children, it captures projects' gender relevance by design.

**Figure 4: Use of the environmental and climate marker by the EU blending facilities**



Source: Author's calculations from data on facilities' websites.

# OPERATIONAL MODELS

Table 4 suggests the existence of two different operational models, depending on the nature of the partners they engage with and how they do so: the ‘combiners’, or ‘indirect supporters’, and the ‘direct supporters’. The EU blending facilities and the GFF Trust Fund are ‘combiners’, or ‘indirect supporters’, because they combine their finance with existing DFI projects and through them reach the project beneficiaries (e.g. an infrastructure project). By comparison, the DGGF is a ‘direct supporter’, because it engages directly with the project beneficiaries (in this particular case, SMEs). The difference between the two operational models will come up again below.

One consequence of being a combiner, or indirect supporter, is that it generally involves the transfer of a number of responsibilities to the DFI acting as an intermediary. By comparison, in the direct model, the managing institution could retain all management responsibilities. We have already discussed the potential consequences of the transfer of responsibility in Chapter 1. To illustrate this point, Table 6 shows the leading financial institution for all EU blending projects in the database.

**Table 6: Lead DFIs in EU blending projects**

DFI	Country	Lead, # of Projects	Frequency Lead
<i>KfW</i>	Germany	50	19.8%
<i>European Investment Bank (EIB)</i>	EU	63	25.0%
<i>French Development Agency (AFD)</i>	France	62	24.6%
<i>European Bank for Reconstruction and Development (EBRD)</i>	European	52	20.6%
<i>Spanish Development Cooperation Agency (AECID)</i>	Spain	3	1.2%
<i>Private Infrastructure Development Group (PIDG)</i>	Several countries	4	1.6%
<i>Luxembourg Agency for Development Cooperation</i>	Luxembourg	2	0.8%
<i>African Development Bank (AfDB)</i>	Africa	11	4.4%
<i>Inter-American Development Bank (IDB)</i>	Latin America	4	1.6%
<i>Caribbean Development Bank (CDB)</i>	Caribbean	1	0.4%
<i>Council of Europe Development Bank (CEB)</i>	European	1	0.4%
<i>Società italiana per le imprese all'estero (SIMEST)</i>	Italy	1	0.4%

Source: Author's calculations from data on facilities' websites.

# USE OF FINANCIAL INSTRUMENTS

This section refers to different financial instruments and requires a brief introduction. Even if all facilities use the ‘capital contribution’ approach to report ODA, there are differences in the way they use these funds. To avoid unnecessary confusion when explaining the relationship between blending and financial instruments, it is useful to differentiate between ‘combiners’, or ‘indirect supporters’, on the one hand, and ‘direct supporters’, on the other.

As we have noted, combiners, or indirect supporters, combine finance provided by the facility with other types of finance. Both in the EU blending facilities and the GFF Trust Fund, the facilities provide concessional finance (grant or grant-like finance), which is combined with other forms of finance. To understand how blending works, it is important to differentiate between two aspects of the process:

- What is being used; both the EU blending facilities and the GFF Trust Fund use ODA.
- How ODA is being used; this refers to the function of ODA in relation to other sources of finance (i.e. what is the role of ODA in relation to other finance? How is it used?)

The key to understanding the use of financial instruments by combiners or indirect supporters is **not to focus on what the facilities are using (ODA), but on how they use it**. This is the approach used to compile Table 7, which builds on Table 2, in Chapter 1.

In the case of direct supporters, the distinction between the ‘what’ and the ‘how’ does not exist, because there is no combination with other sources of finance. For example, a loan is a loan and an equity investment is an equity investment.

**Table 7: How ODA can be combined with other sources of finance**

Instrument	Description: Use of ODA
<i>Investment Grants</i>	A grant is used to reduce the overall cost of the project and total investment required from other actors. Investment grants increase the financial viability of the project and make external financing more likely. Investment grants usually pay for discrete goods linked to the project.
<i>Interest Rate Subsidies (blended loans)</i>	A grant is used to cover part of the interest payments. The project beneficiary thus receives a subsidized loan at a below-market interest rate. The interest-rate subsidy is generally provided in relation to loans from third actors (e.g. a DFI).
<i>Technical Assistance for Project Design</i>	A technical assistance grant is provided to a company to strengthen its design and increase the chances of accessing finance. It can also be used after finance has been granted to increase the chances of success. It is often combined with other forms of finance.
<i>Loan Guarantees</i>	A grant is used to cover the lender’s losses in case of default so that it agrees to finance the project or to do so on better terms.
<i>Structured Finance – First Loss Piece</i>	Donors offer finance with a lower repayment priority than the debt issued by other financiers. In case of default, donors would absorb the losses first. Mezzanine loans are a form of structured finance.
<i>Equity Investment</i>	A grant is used as a direct capital contribution to a company or investment fund, usually to send a signal to other investors and attract additional capital.

Source: Adapted from Pereira, ‘The Development Effectiveness of Supporting the Private Sector’.<sup>44</sup>

## Availability and use of financial instruments

There are important discrepancies between the range of financial instruments available and the sample of facilities and the frequency of their use. As we will discuss, this trend is most significant in the case of the EU blending facilities, but the research does not show the reasons behind such strong bias. There are many potential explanations that remain to be explored. First, it might have to do with the broader regulatory and financial framework of the facility or the managing DFIs (e.g. how and when they can engage in the more exotic instruments). Secondly, it could be driven by demand and expertise. For instance, do DFIs use these instruments? If so, how often? And do clients demand this product?

Table 8 presents the financial instruments that facilities could use according to existing guidelines and regulations. It shows that the EU blending facilities benefit from the largest choice of instruments, whereas the DGGF is more restricted and clearly distinguishes funding windows. The GFF Trust Fund only uses grants to support projects. Although these grants have to be linked to IDA and IBRD loans and are part of the same project documents and legal agreement,<sup>45</sup> they are granted not to make the terms more affordable, but as additional grants. GFF Trust Fund grants can be used to fund defined investments in health or be provided as more flexible programme finance. Disbursement of GFF Trust Fund grants is usually linked to the delivery of measurable results, as would be expected of grants targeted to public sector recipients.

**Table 8: Financial instruments theoretically available, per facility**

<b>Facilities and Sub-facilities</b>	<b>Financial Instruments Available</b>
<i>EU Blending Facilities</i>	Investment grants Technical assistance Interest rate subsidies Risk capital (i.e. equity and quasi-equity) Guarantees
<i>DGGF</i>	
<i>Dutch SMEs Investing</i>	Loans, equity investments, guarantees, TA.
<i>Dutch SMEs Exporting</i>	Export credit insurance (up to €15m and provided through Atradius), export financing (up to €2m) for customers in developing countries if the customer bank does not provide financial support for the operation, TA
<i>Inv. Fund Local SMEs</i>	Equity investments, also provides TA through the SCDB programme.
<i>Global Financing Facility</i>	Not applicable. It is a coordination structure and process based on 'country platforms'. Once an Investment Case is agreed upon, financiers – both national and international – decide jointly which elements are to be financed by each partner, in a country-led process. Partners financing the Investment Case also participate in country-led implementation review and support.
<i>GFF Trust Fund</i>	Grants linked to the delivery of defined results (approximately 80 percent of the trust fund). Grants are necessarily linked to IDA and IBRD finance (loans), and go to national governments. Only countries with Investment Cases and demonstrable commitments to increasing domestic resource mobilization can benefit.  Remaining 20 percent of trust fund will be used for three areas: 1) complementary support to countries, such as for the preparation of Investment Cases and health financing strategies; 2) global public goods (5–10 percent); and 3) the costs of the secretariat and the governance mechanisms.

Sources: Interviews, EC, World Bank.<sup>46</sup>

**The EU blending facilities rely on technical assistance and investment grants for almost 90 percent of their projects.** Table 9 presents the use of financial instruments per blending facility and for all projects in the dataset. It includes both the absolute frequency of each instrument and the frequency in percentage of all projects in each facility. Technical assistance (TA) plays the most important role among the financial instruments, with pure TA accounting for 45 percent of all projects. TA is also often combined with other financial instruments, which if accounted for would bring the number of projects with a TA component to 73.7 percent. The second preferred financial instrument is investment grants (43 percent of all projects). Half of these projects include a TA component. The third most used instrument is the interest rate subsidy, which accounts for 6 percent of the projects. All of the projects using this financial instrument have been implemented by a single facility, the ITF. Equity instruments account for 5 percent of all projects and have been most frequently used by the AIF (13 percent of projects), IFCA (13 percent) and NIF (6 percent). The use of guarantees is residual.

**Table 9: Use of financial instruments in the EU blending facilities**

Instrument	AIF		CIF		IFCA		IFP		LAIF		NIF		ITF		Total	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
<i>Investment Grants</i>	5	33	7	78	6	40	0	0	13	48	53	55	23	26	107	43
of which +TA	4	27	2	22	3	20	0	0	8	30	27	28	10	11	54	22
<i>TA only</i>	8	53	2	22	6	40	2	100	13	48	35	36	46	53	112	45
<i>Equity</i>	2	13	0	0	2	13	0	0	1	4	6	6	2	2	13	5
of which +TA	2	13	0	0	2	13	0	0	1	4	5	5	0	0	10	4
<i>Guarantee</i>	0	0	0	0	1	7	0	0	0	0	2	2	0	0	3	1
of which +TA	0	0	0	0	1	7	0	0	0	0	2	2	0	0	3	1
<i>Interest rate subsidy</i>	0	0	0	0	0	0	0	0	0	0	0	0	16	18	16	6
of which TA	0	0	0	0	0	0	0	0	0	0	0	0	6	7	6	2

Source: Author's calculations from data on facilities' websites.

In the case of the **DGGF**, there are also some discrepancies between theory and practice, though it is more consistent than the EC. There is also a technical assistance component attached to all three funding windows, but it is relatively small. Approximately 10 percent of the total DGGF budget has been reserved for TA.<sup>47</sup> All projects in the 'Dutch SMEs exporting' window available in the dataset use export credit insurance, and there are no instances of projects using export financing. Finance channelled through the 'investment fund' was used to make equity investments in 15 projects received. Out of these 15 projects, seven also received or were expecting to receive TA support through the SCDB programme. The 'Dutch SMEs investing' window is difficult to assess, since there is information about the financing modalities used in two projects only. One received a loan guarantee and the other a loan.

Although so far there are no projects funded by the GFF Trust Fund to be evaluated, those funded under its predecessor, the HRITF, show that all but two followed the proposed implementation modality: A grant was provided in combination with an IDA loan. In the remaining two projects, the grant was provided on a stand-alone basis.

## Do they do blending?

As we mentioned in the introduction, the three facilities were not selected using a set definition of blending. This more flexible approach was used as a way to widen the scope of potential operational models and enrich the evidence base. We selected facilities that were considered or defined themselves as using blended finance. Nonetheless, it is interesting to discuss how the different definitions examined in Chapter 1 apply to the different facilities.

Table 1 shows that many definitions apply to the same facilities. However, this tends to apply to certain projects and not the facility as a whole. In the case of the EU blending facilities, the first definition would not capture projects promoted by the public sector in developing countries, unless they involved private finance. The second definition would only capture operations in which ODA is combined with loans, which is not always the case (for example, equity investments in funds). The same applies to definition five. Definition three requires that the blending element be combined with private finance and that it support the private sector. Unless the concepts in this definition are understood in a very flexible way, it would most likely exclude many projects, since ODA is often combined with other forms of public finance (e.g. loans to DFIs) and used to support public actors. For similar reasons, definition four would exclude projects whose beneficiary is the public sector. The overlap between the six definitions and the GFF is even smaller. Given its exclusive focus on the public sector and the nature of its operations, only definition five would capture GFF projects.

The DGGF is more consistently captured by the definition in the sample. Unlike the EU facilities, the DGGF focuses on and works with the private sector. This ensures compliance with definitions one, three and four, which require either that mobilized finance comes from the private sector or that the project benefits the private sector. For the same reasons discussed in the previous paragraph, definitions two and five would apply only to those DGGF projects that involve loans.

## ACCOUNTING FOR ODA AND OTHER SOURCES OF FINANCE

The first part of this section examines how donors account for ODA used to fund blending projects. This complements the analysis in Chapter 1 by providing some insight into how ODA is accounted for and its potential implications. The second part explores how the three facilities account for the other sources of finance with which they blend the ODA funds. The discussion in the second part is relevant as a way to illustrate and provide additional evidence about the accounting challenges discussed in sections 1.2 and 1.3, including the use of leverage ratios.

### Accounting for ODA

There are two ways in which ODA contributions to the three blending facilities can be accounted for. Firstly, following the OECD DAC guidelines, **donors can report individual grants and grant-like project finance as ODA**. This is the traditional approach used by bilateral aid agencies. An example of a grant-like element is a concessional loan, for which a 'grant element' can be estimated, following an agreed-upon methodology. The OECD DAC rules also require donors to report as negative flows any returns generated by ODA. As a result, donors can also report as ODA things like equity investments (e.g. an investment in a fund), as long as any returns or income are reported as negative flows by donors.

The second approach, and the one used in **all facilities in the sample, is to report as ODA the total amount of money transferred to the facility on a yearly basis**. It is very likely that all facilities favour this result because it provides additional flexibility. Essentially, it allows

donors to report as ODA money that is used to provide non-concessional finance and that would not be reported as ODA if individual projects were considered (as with the first approach we discussed). The reason for this is that ODA is considered essentially a **capital contribution**. The DGGF is the perfect example. The facility is being capitalized with ODA funds, but finance provided to individual projects is not concessional (see the next section). The capital contribution approach is also bound by the same rule, namely, that any returns or income must be reported as a negative flow. As a result, if the facility (e.g. the DGGF) generates any form of returns, they would need to be reported as negative flows. In practice this does not happen, because the DGGF operates as a revolving fund (i.e. any profits or returns are used to pay any costs incurred in the management of the facility, and the remaining amount gets reinvested in other projects).

**The use of the ‘capital contribution approach’ has some risks and advantages from a development perspective.** On the one hand, it allows donors to report as ODA funds that are not subsequently used to provide concessional finance. This makes it possible to use ODA to pursue a broader range of economic interests (e.g. part of DGGF funds are used to support Dutch SMEs). At the same time, it is difficult for donors to cash out of this type of facility, because they will have to report any income as negative ODA. In this sense, the approach provides an incentive for donors to accumulate and reinvest funds. In the long term, most of the facilities are required to be sustainable, so the total amount of finance available keeps increasing.

Interestingly, the use of the capital contribution approach seems to have allowed the DGGF to report as untied ODA funds that should have been reported as tied ODA. Two of the DGGF funding windows focus exclusively on Dutch companies and, as a result, contributions to these windows should have been reported as tied aid. (Contributions to each of the windows are reported separately in the OECD CRS database.) It is not clear whether this is an omission, a mistake or evidence of some form of reporting loophole.

From a theoretical perspective, the different operational models discussed in the previous section (‘combiners’, or ‘indirect supporters’, and ‘direct supporters’) could have an impact on the way different facilities account for ODA. For example, the EU blending facilities could potentially report on a project-by-project basis because they are essentially combining grants with other forms of finance and grants are reportable as ODA (see next section). The case of the GFF Trust Fund is similar, although it faces a particular problem. Since the GFF Trust Fund has received contributions from multiple countries, there could be a problem of attribution, as either countries or the GFF Trust Fund report it. By contrast, it would not be possible for the DGGF to use an alternative reporting model, because it does not provide concessional finance (grant or grant-like finance), and individual projects would not be reportable as ODA.

## How are ‘mobilized’ sources of finance accounted for?

The figures for ‘total finance’ in Table 5 should be handled with care. There are significant differences in the way the facilities examined in this report account for the total amount of finance linked to the project. The key element in the discussion about blending and leveraging is how the ODA grant relates to other sources of finance and how this relationship is accounted for.

**The EU blending facilities report as ‘total finance’ the absolute total project costs.** These include the ODA grant, the finance provided by other DFIs (lead and co-financing) and potentially other spending by the project beneficiary. (This is the definition of ‘investment leverage ratio’ included in Chapter 1.) This approach helps to explain the differences in the relationship between ODA and total finance with the other two facilities.

Moreover, **the EU blending facilities are not necessarily consistent in the way they report instruments.** The analysis of the dataset shows that the absolute total project costs approach

applies to investments supporting discrete and quantifiable projects (e.g. building a road). In general, these investments represent the clear majority of the projects in the database and all projects supported through TA, investment grants and interest rate subsidies use this approach. However, support to investment funds and credit lines count the total size of the facility (i.e. the fund) and do not include the absolute amount mobilized in favour of or by the final beneficiary. This approach is more restrictive, and any effort to estimate impact and leverage ratios could result in significant discrepancies.

An example can help to illustrate this difference. When using the 'absolute total project costs approach', we count as additional finance the amount mobilized by DFIs and other project partners, as well as the ultimate beneficiaries. When using the more restrictive approach, we count only the amounts provided by the investors in the fund. Additional amounts mobilized at the level of the final beneficiary are not included in the figure. This inconsistency is probably one of the reasons why the OECD is working on a methodology to account for finance mobilized through multiple instruments (see Chapter 1).

The existence of two separate approaches is probably explained by the differences in the nature of the project 'beneficiary'. In the case of more traditional discrete investment projects (e.g. a power plant), the beneficiary is usually the final beneficiary of the project (e.g. the government). In the case of funds, the beneficiary is a financial intermediary that is not the ultimate intended beneficiary (e.g. an SME in a developing country).

The DGGF seems to use the same approach as the EU blending facilities when it comes to accounting for projects supported through the 'investment funds' window. There are data for 13 out of the 15 projects, showing a total DGGF investment of €87m. Three projects within the facility provide additional information that helps illustrate the relationship between the DGGF investment and the total size of the investment. The three projects received €13.1m in DGGF funding and are expected to reach a total fund size of €60.7m. In this case, the DGGF follows the approach we have already discussed and quantifies the total size of the fund.

The HRITF total amount of finance refers to the total amount resulting from the combination with IDA resources. This seems to be a more restrictive approach than the 'absolute total project costs' we have already discussed.

## DEVELOPMENT IMPACT

External evaluations do not provide much evidence about the impact of the three facilities in the sample. The European Court of Auditors evaluated the effectiveness of the EU blending facilities,<sup>48</sup> but the report focuses on procedural and operational aspects rather than on the impact of the projects on the ground. A more comprehensive external evaluation of the impact of the EU blending facilities is currently being finalized but is not available at the time of this writing. Individual facilities have also made evaluation reports available. There is a mid-term evaluation and an evaluation of the ITF that were released in 2012 and 2014, respectively,<sup>49</sup> but they focus on alignment with stated goals and delivery of the project-output indicators, and they do not try to measure the overall impact on development or broader spill-over effects. If anything, they show that most projects fail to report on cross-sector indicators that try to capture broader development impacts (and even when projects do report, the indicators often have clear limitations; see section on pro-poor indicators below).<sup>50</sup> The midterm of the NIF evaluation is more comprehensive, but it found no evidence of poverty impact and concludes that 'the facility has not so far developed adequate and harmonized tools to assess, steer and monitor project portfolio according to social development and poverty reduction potential of project proposals'.<sup>51</sup>

As far as we know, there are no evaluations of the impact of the other two facilities. The Dutch Court of Auditors assessed Dutch support of the private sector. The audit covers all Dutch

support to the private sector, including the DGGF.<sup>52</sup> Although it is not clear the findings are applicable to the DGGF, they include limitations in the monitoring of results and fragmentation of the support as it is channelled through several different ministries and implementing agencies. The Dutch Ministry of Foreign Affairs has awarded a contract to evaluate the impact of the DGGF to a team of two consultancies, Itad and SEO. However, the contract is to evaluate the impact of the first five years of the facility (2014–2019), and the report is not expected until 2020. There are some evaluations of the impact of the HRITF, but the most comprehensive one dates from 2012 and was conducted by NORAD.<sup>53</sup> This evaluation provides some information, but it is not clear all lessons can be automatically applied to the GFF Trust Fund, because, among other reasons, the HRITF committed to addressing some of the issues raised in the document. The other so-called impact evaluations are short, essentially promotional documents that lack depth and provide little substantial evidence.<sup>54</sup>

The lack of evidence with which to assess the impact of the three facilities requires us to rely on an alternative and complementary approach. Instead of using external sources to assess the impact, in this section we look at different elements that are essential to ensuring the design of effective projects and measuring their impact. The analysis is complemented by a discussion of gender and the project design's poverty focus. Thus, this section looks at the two following issues:

- Designing effective and sustainable projects, through the assessment of the extent to which the project design incorporates key development effectiveness principles.
- Impact measurement, based on the discussion of M&E systems, including their ability to measure gender and pro-poor aspects of the project.

## Designing effective projects

It is difficult to assess comprehensively each facility's compliance with every development effectiveness principle. This section discusses a few key indicators for principles that are particularly relevant during the design process.

This exercise presents some important challenges. Although donors have committed to implementing development effectiveness principles, other institutions managing blending projects on behalf of donors have a different mandate or a business model that may be difficult to bring into alignment with these principles. As a result, it may not be totally fair to hold these institutions to account for their compliance with development effectiveness principles. Still, compliance with the principles is an interesting and valid question, because it provides rich information we can use to explore the tensions that blending creates at the institutional level between ODA donors and the actual managers (see Chapter 1). The tensions may not be a major problem if the levels of blended finance remain small, but that changes if increasing amounts of ODA are used for this purpose.

### Ownership and alignment

With the exception of the GFF, the facilities are not designed in a way that contributes to the ownership of developing countries and alignment with national plans and strategies. The three facilities operate at different scales and through different governance structures, and it is difficult to compare them directly. Table 10 provides an overview of three elements that are important during the project design if donors are to implement the ownership principle. Alignment can also be measured indirectly through these indicators. This analysis focuses on the participation and consultation of developing countries' stakeholders in the decision-making and consultation process as a key condition for ensuring ownership and alignment.

**Table 10: Selected ownership and alignment indicators**

Facility	Review and approval	Project Initiation	Consultation
<i>EU Blending Facilities</i>	Board, chaired by EC and with European External Action Service and member states. Financial institutions are observers <sup>55</sup>	DFIs, projects submitted by DFIs can have different beneficiaries	Not by the facility itself. Could be conducted by DFIs
<i>DGGF</i>			
<i>Dutch SMEs Investing</i>	Netherlands Enterprise Agency	Dutch SMEs	No
<i>Dutch SMEs Exporting</i>	Atradius, Dutch export financing agency	Dutch SMEs	No
<i>Investment Fund Local SMEs</i>	Consortium of PricewaterhouseCoopers (PwC) and Triple Jump	Investment funds	No
<i>GFF Trust Fund</i>	GFF Trust Fund Committee, currently composed of representatives from participating countries, contributing bilateral donors, non-governmental organizations, the private sector, private foundations, multilateral financiers and technical agencies	Eligible countries	Yes, in the context of the broader GFF operations, through the country platform, which includes a large number of different stakeholders

Sources: Interviews, GFF, EC, and Romero, 'Dangerous Blend'.<sup>56</sup>

The **DGGF is the worst performer when it comes to all three indicators**. Multiple funding windows are managed by multiple entities, but none includes representation from developing countries. Projects are initiated by private companies in all three funding windows, and there is no requirement to consult developing countries or other stakeholders during the design process. An Oxfam assessment of the documentation of the High Quality Rose Farming project, in Ethiopia, found no mention of the country ownership principle, explicit links to national priorities or provisions related to ensuring country ownership in the project documents.<sup>57</sup>

The governance of the EU blending facilities does not support the principle of ownership, but it is difficult to make an accurate assessment because many responsibilities are transferred to the DFIs leading individual projects. The same applies to the principle of alignment. The board of the EU blending facilities does not include representatives from developing countries or other stakeholders. As Eurodad's research shows, developing countries' governments are consulted when designing and setting priorities of each individual facility but do not sit on the board or participate in the operational decisions.<sup>58</sup> The situation has not changed, and even the AfIF that was approved in 2015 is replicating that approach.<sup>59</sup>

DFIs play a key role in the design and management of individual projects. Thus, assessing the level of ownership during the design phase is difficult, because the policies and practices of individual DFIs can differ. Evaluating the performance of individual DFIs is beyond the remit of this report, but research looking at seven European DFIs concluded that, in general, these institutions could not guarantee the ownership of development projects, because of a bias in favour of donors' economic interests and businesses. Depending on the facility, these can result from one or more of the following factors: an explicit mandate to support national enterprises

(e.g. Germany's KfW-DEG and Spain's Cofides); a tendency to operate in less risky countries (conservative investment strategies combined with broad geographical scopes and lack of incentives to invest in frontier markets); and, in some cases, the co-ownership of the DFI by private-sector actors.<sup>60</sup>

In addition, DFIs are not obliged to consult with developing countries' governments or stakeholders.<sup>61</sup> This can pose a problem when facilities support private sector projects. In practice, there is usually a consultation process through the EU delegation, but as the NIF evaluation notes, the process is often shallow.<sup>62</sup> The evaluation also exposes gaps in consultation with civil society and other stakeholders and recommends it be included in the governance system.<sup>63</sup> With the exception of the point about civil society, these conclusions do not necessarily apply to blending projects involving public sector projects in developing countries. In these cases, the participation of the government does ensure some form of consultation and one could argue that more ownership is to be expected.

The GFF Trust Fund presents a governance structure that is consistent with the principle of ownership and provides sufficient space for alignment with national development plans and priorities. This should not be surprising, since the GFF Trust Fund provides resources to national governments. The committee responsible for the review and approval of individual projects includes representatives from CSOs, participating countries and several other constituencies. Moreover, projects are initiated by developing countries and discussed in the context of multi-stakeholder country platforms, including representatives from donor governments, participating countries, CSOs, the private sector, foundations and multilateral and technical agencies. However, there are real challenges in ensuring local and national level CSO participation in the country platforms, as some governments would prefer not to have CSOs around the table. The GFF could do more to require governments to include civil society.<sup>64</sup>

### **Transparency and accountability**

It is clear that the lack of participation of developing country governments and other stakeholders in the decision-making process, with the exception of the GFF, represents an obstacle to ensuring that affected communities can exert their right to hold project funders accountable. To complement this analysis, some indicators have been selected to illustrate whether the facilities in the research sample provide sufficient tools and mechanisms for stakeholders to hold donors accountable.

Table 11 contains additional information about transparency and the existence of complaint mechanisms. Transparency and accountability are the result of a complex interaction of numerous elements at different levels (e.g. board, project level, etc.).<sup>65</sup> Evaluating all of them is beyond the remit of this report. Instead, we tried to indicate how the different facilities perform based on the quality of project information made available by the different facilities, which enables stakeholders to learn essential facts, such as what the objectives are and who is supporting a project; and the existence and nature of complaint mechanisms, which are a formalized way to channel any complaints to the institutions involved in the process. We were not able to examine how complaints were actually handled if the mechanisms were in place. We also briefly discuss the availability of up-to-date project information in the context of the first indicator mentioned above.

The level of transparency is comparatively higher in the case of the GFF Trust Fund, but the specific GFF project component is not always easy to identify. The World Bank project database provides detailed information about the projects and access to environmental and social impact assessments, and it includes a local (national) address where the project documentation can be consulted. IDA ranks sixth in the global aid transparency index compiled by Publish What You Fund.<sup>66</sup> However, GFF Trust Fund grants are reported as part of larger IDA/IBRD projects, and the particulars of the GFF trust fund grants are not always clear from the beginning in the IDA database. This is based on a sample of 20 HIRTF projects for which searches were conducted in the IDA project database.

**Information proactively disclosed by the EU Blending Facilities is basic and often outdated, but it is consistent.** As Table 11 shows, the information available in the EC database is restricted to a few essential facts, and no actual project documents are available.<sup>67</sup> The ITF also includes its own database on its website, where some complementary information can be found. Sometimes, but not always, additional information can be obtained on the lead’s DFI website, although projects are not easy to identify solely on the basis of information provided by the European Commission. In addition, project information is often old, with many 2015 projects still missing from the EC’s online database.<sup>68</sup> Finally, annual reports contain aggregated and general information that cannot be used to hold the EC or project partners to account for individual projects.

**Table 11: Selected accountability indicators**

<b>Facility</b>	<b>Access to Project Data</b>	<b>Updated Data</b>	<b>Complaint Mechanisms</b>
<i>EU Blending Facilities</i>	Basic: project name, brief description, amount of grant, total amount, country, instrument, DFIs involved and sector. Additional information can sometimes be accessed through the DFI’s project databases, though it is not always easy to find and does not necessarily include additional details	No, many 2015 projects are still missing. Projects belonging to the ITF are generally up to date	Not at the facility level. Some of the DFIs involved have independent complaint mechanisms but not all
<i>DGGF (all three windows)</i>	Basic: project name, brief description, country. Sometimes includes information about funding and recipient (mostly in relation to the investment funds’ window).	Yes	Yes
<i>GFF Trust Fund</i>	Through the World Bank’s project database. Detailed information and project document generally available	Not applicable (not enough projects have been approved and the HRITF projects are relatively old)	Unclear, probably same as IDA and IBRD as grants are integrated in the framework of their projects (World Bank Inspection panel)

Source: Interviews, facilities websites.<sup>69</sup>

**The information made available by the DGGF is basic, but project information is current.** The DGGF only releases the most basic information about individual projects (see Table 11). The information is generally current, in part because the DGGF posts proposed projects for 30 days before signature for consultation purposes. Although the possibility of providing comments could help increase accountability and improve project design, its impact is probably restricted by the lack of data and the projects’ potential lack of public visibility, especially in developing countries. Projects are rather small, negotiated among Dutch counterparties (Dutch companies and DGGF implementing agencies) without the clear involvement of local communities.

As a result, the accountability issues in blending projects are probably compounded by **the lack of visibility of the ODA component in blending**. If affected communities do not know where funds originate, it is difficult to access existing accountability mechanisms. The blending projects' lack of visibility has been confirmed by the report of the European Court of Auditors on the EU blending facilities.<sup>70</sup> The problem is that the lack of visibility is likely the result of the small amounts of ODA generally involved, combined with what are typically large amounts of development finance from other sources.

There is insufficient information about the existence and accessibility of independent complaint mechanisms; what is worse is that these mechanisms do not always exist. The EU blending facilities do not have an independent complaint mechanism. Approximately 90 percent of all EU blending projects are led by a group of four institutions (KfW, AFD, EIB and EBRD; see Table 6). As far as we have been able to confirm, three have in place a complaint mechanism (KfW, EIB and EBRD).<sup>71</sup> Although this might seem like a high proportion, the truth is that most European DFIs eligible under the blending facilities still lack such a system.<sup>72</sup> Moreover, there is no information about the existence of independent complaint mechanisms or any other form of redress mechanism in the project database or elsewhere. The case of the GFF Trust Fund presents a similar lack of information, although it seems that people affected by the project could always use the World Bank's Inspection Panel. The DGGF is the only facility that provides instructions about how to complain.

## Monitoring and evaluation systems

Monitoring and evaluation (M&E) systems are used by institutions to measure the impact of their projects on the ground and identify deviations and problems during the implementation phase. They also perform other useful functions, such as enabling accountability or collecting data that should allow for the correction of any deficiencies and for the improvement of future projects.

Given the nature of some of the facilities in the report and the potential number of institutions with varying M&E systems involved in project management, this report cannot provide a comprehensive overview and comparison of such systems. Instead, this section uses two proxies to assess performance. They are:

- The use of **indicators to measure the pro-poor impact** of projects, such as the ability to reach certain population groups (low-income people, rural residents, women, etc.).
- **Access to project evaluations**: Independent of the design of M&E systems, it is through evaluations that one can learn about the performance of individual projects. Evaluations are crucial for stakeholders to use to follow the projects and for academics to be able to evaluate different approaches and draw lessons that can be used to improve the design of future projects.

Table 12 provides detail on the facilities' M&E systems.

**Table 12: Selected indicators of M&E systems**

Facility	Responsibility and framework	Pro-poor impact indicators	Access to project evaluations
<i>EU Blending Facilities</i>	DFIs acting as leading financial institution	General standardized indicators, only one refers to income (beneficiaries under the poverty line), no indicators on gender	Generally no, summaries are available for a few DFIs
<b>DGGF</b>			
<i>Dutch SMEs Investing</i>	Administered by the Netherlands Enterprise Agency	Uses financial and development impact indicators	No in the case of individual projects. Other evaluations will be made public, but no reports are expected until 2018
<i>Dutch SMEs Exporting</i>	Atradius Dutch State Business	Same framework, but more difficult to implement due to nature of operations (export of goods)	
<i>Inv. Fund Local SMEs</i>	PwC and Triple Jump		
<i>GFF Trust Fund</i>	IDA and IBRD (grants are included in IDA or IBRD contracts and agreements)	Results based-approach to aid delivery. Evidence of ability to target specific population groups (income, gender, rural, etc.)	Summary reports of individual project evaluations

Source: Facilities' websites.<sup>73</sup>

### Pro-poor impact indicators

The use of standardized indicators focused on the delivery of project outputs makes it difficult for DFIs and other institutions to account for development impact without conducting detailed evaluations. There is a tendency among DFIs to use harmonized results indicators across multiple projects.<sup>74</sup> These indicators are generally sector specific and focus on measuring project outputs. There are multiple sound reasons why institutions like to use standardized indicators. First, harmonized indicators help to compare performance across and within institutions. Second, very specific and easy-to-monitor indicators focusing on the project outputs are not affected by the problem of attribution that affects broader indicators, such as impact on income. Third, standardized indicators reduce the burden on beneficiaries receiving support from different institutions for the same project. However, the main drawback of using this approach is that it makes it very difficult for institutions to assess the development impact of projects in a broader way or account for spill over effects.

Indicators proposed by the EU blending facilities are highly standardized and do not provide much information about the actual impact of projects on the poor or their contribution to gender equality. The EU blending facilities propose a number of indicators to monitor projects that are additional or complement the ones used by DFIs. For example, the AfIF that replaces the ITF and the NIF includes several sector-specific indicators that respond to specific project outputs.<sup>75</sup> This probably reflects a desire to harmonize the indicators used across different facilities to simplify the work of the DFIs managing the projects. Given the similarity to some of the

indicators that have been harmonized at the global level,<sup>76</sup> it is also possible that the EC has simply adopted indicators already used by the DFIs.

Both facilities also include a cross-sector indicator that measures the number of beneficiaries below the poverty line who will see their life conditions improved as a result of the project. This indicator combined with the total number of beneficiaries can provide an indication about the poverty focus of the intervention, but it can only be measured ex post and does not represent a design incentive to focus on specific populations. Moreover, the mid-term evaluation of the ITF shows that only 14 percent of projects reported on this indicator.<sup>77</sup> **Gender** is not captured in the indicators suggested by the AfIF or the NIF.

Indicators used to measure development impact by the DGGF are very general, but they do capture gender and other interesting issues. Projects supported by the DGGF are encouraged to report on the percentage of female entrepreneurs supported by DGGF, the percentage of young entrepreneurs supported by DGGF and the number and percentage of investments and/or transactions in fragile states supported by DGGF. For example, the DGGF High Quality Rose Farming project we mentioned will likely generate 450 jobs, 400 of which will go to women.<sup>78</sup> Although these indicators remain quite general, they represent an improvement compared with those used in the EU blending facilities. The difference could be partly explained by the fact that they have targeted substantially different actors: SMEs, in the case of the DGGF, and public sector investments, in the case of the EU blending facilities.

The GFF (as proxied by HRITF) is once more an exception in this regard. HRITF projects were able to provide incentives to target women, poorer areas or disadvantaged populations.<sup>79</sup> This was possible thanks to the use of a results-based approach to project design that included, for example, incentives, bonuses or allocation formulas that contributed to direct efforts towards a certain population group.<sup>80</sup> Again, some of this likely stems from the GFF's public sector orientation. Also, the results-based approach lacks transparency, and there are concerns about its contributing to an erosion of the predictability of aid, which could harm recipients' ability to achieve sustainable improvements in health, and to invest in longer-term items like salaries for health workers.<sup>81</sup>

The difference between the GFF Trust Fund, as the successor of the HRITF, and the other two facilities suggests the existence of fundamental variations in their approaches to project design and implementation. The HRITF designed projects that, through the use of incentives, allowed them to target specific populations and measure the impact. By comparison, the EU blending facilities and the DGGF rely on projects designed by others. In this context, the EU blending facilities try to monitor their impact on poverty through an indicator that represents a very limited conception of poverty. Moreover, it is not clear how simply measuring an indicator can influence the project outputs, unless such concern has been incorporated from the beginning.

Future research should address the possibility of adopting one approach or the other as the result of the size or nature of the underlying investments, sectors or nature of the operations and actors involved.

### **Access to evaluations**

**Project evaluation reports are not generally proactively disclosed by the facilities in the research sample.** This prevents stakeholders from having an objective view about the impact of their projects. It is also a problem for academics, who complain about a substantial publication bias resulting from DFIs restricting the publication of information to successful projects.<sup>82</sup> In the case of the GFF Trust Fund, IDA makes available a summary version of the project results, but it contains a reduced amount of information. The case of the EU blending facilities is more difficult to evaluate, because of the large number of DFIs involved. Out of the four top project leads (more than 90 percent of blending projects), both EBRD and AFD provide access to the project evaluations, albeit in summary form.<sup>83</sup> Submission of a written request is also mandatory in the case of AFD. KfW and the EIB do not make clear whether the information

is accessible and in what form.<sup>84</sup> The lack of proactivity in sharing project evaluations is further supported by research looking at seven European DFIs, which found that only two of them made it available in a summary form.<sup>85</sup>

# 3 CONCLUDING REMARKS

This report cannot and does not try to provide an answer to the question of whether blending is good or bad. There is a rationale for blending that makes sense from an economic and development point of view. Most developing-country governments want private investment – both domestic and, frequently, foreign – to help them develop their economy and create employment opportunities. Blending could play a particularly important role in helping developing country SMEs overcome credit constraints. Blending could also support projects where private sector engagement has the potential to make a real difference to the opening up of new markets that can benefit extremely poor people. Examples include investments in companies producing renewable technologies that prioritize energy access for the poorest people; generic medicine producers; and medical technology companies in sub-Saharan Africa. However, this rationale only makes sense in a broader context, where the questions of balance with other ODA modalities and the quality and capacity of blending projects to achieve development outcomes also play a role.

Using development impact as a yardstick, this report has identified and considered multiple aspects of blending from a range of perspectives. The result is a list of specific quantitative and qualitative risks associated with the practice of blending that could undermine its impact or that of ODA flows in general. Although the GFF tends to follow better development effectiveness and governance principles than do the DGGF or the EU blending facilities, and to do better M&E, it is important to note that its relatively superior performance is likely a function of its transactions involving a public sector donor and recipient. This is not the way most blending activities currently operate.

In addition, this report confirms the initial statement that we do not know very much about blending projects and that the lack of a common language is a major obstacle to any attempt to understand, learn more about or improve blending projects. The impact of this lack of knowledge includes:

- ODA and development finance inflation – the lack of a common methodology to account for ODA for blending and mobilized finance can lead to double counting and makes it possible to report as ODA money spent in a non-concessional way. Even the development of new methodologies can pose similar risks. The development of new methodologies is good, as it will increase the amount and detail of information reported, but there is a risk that if the new technologies are not designed properly, they could result in an artificial increase in reported ODA.
- ODA diversion from other aid modalities – new accounting methodologies could provide intended or unintended incentives for using blending (e.g. because in addition to ODA, donors can report significant amounts of mobilized finance). Moreover, it is also possible that, compared to other forms of ODA – for instance, the support of national private sector companies – blending projects are easier to align with donors' political and economic priorities. This diversion effect is influenced by the mandate of implementing institutions and other aspects that influence the selection of projects.
- ODA concentration on certain sectors and/or countries: for example, strong financial sustainability requirements in blending facilities or the managers and/or the absence of incentives to focus on pro-poor projects could lead donors to focus on countries and sectors with a lower risk profile, such as middle-income countries. As with ODA diversion from other aid modalities, this is influenced by project selection criteria and the broader political, regulatory and financial framework surrounding the facility and the institutions involved.
- Potential increase in the amount of tied aid without its being reflected in the official figures. Chapter 2 has shown that the way donors report ODA contributions to the different facilities

(capital contribution approach) is not considered tied aid even if, at least in the case of the DGGF, funds are earmarked for Dutch companies only.

- Lack of demonstrable development effects – weaknesses in M&E systems or inadequate definitions of additionality may allow projects to proceed in the absence of demonstrable impacts or on the basis of financial performance.
- Lack of coordination with bilateral aid agencies and other donors – the use of indirect channels of support and often the transfer of responsibility to external managers or project leaders can make coordination among donors and alignment with country plans difficult to implement. This is not necessarily a problem when the public sector in developing countries is directly involved in the project.
- Poor project ownership and accountability – transparency is a challenge in many blending projects. In addition, several of the actors involved lack independent complaint mechanisms. This makes it difficult for affected stakeholders to channel their concerns and hold donors accountable. Participation of public and private stakeholders in project decisions is also a major challenge in blending projects, especially those involving the private sector.
- Creation of a double standard for ODA projects – as a result of the two points immediately above and the transfer of responsibility to other actors that blending projects usually involve, it is possible that blending does not end up being subjected to the same principles and requirements as more traditional forms of support (e.g. project aid).

Addressing these risks and underlying weaknesses is a long-term agenda. This means that in the short term, some strategic decisions must be made. Such a decision would be based on a number of criteria relating both to the issues themselves (e.g. the most pressing ones) and the capacity and availability of key stakeholders, including NGOs, to engage in the debate. This assessment is difficult to make from an external position, but it should be possible to make at least some general suggestions. To do so, it is helpful to divide into two major groups the risks mentioned above and the underlying weaknesses and gaps in the current use of blending.

Quantitative aspects, such as the way ODA is reported and mobilized finance is accounted for, require a significant amount of technical and methodological work. The discussion within the OECD, ODA donors' forum of choice for elucidating accounting issues related to development finance, is very technical, especially when it comes to estimating mobilized flows. Moreover, it is likely that any solutions would involve compromises between accuracy and what can be realistically achieved with existing resources or without exponentially increasing the transaction costs. NGOs have little direct knowledge of the latter area because of transaction costs and might not be able to challenge or confirm donors' claims. As a result, even if NGOs were able to describe a perfect system, they might not be able to demonstrate how it can be implemented in practice. In addition, the debate about certain areas is already quite advanced and the window or opportunity is small.

By comparison, qualitative aspects could offer a more familiar policy path for organizations willing to work on blending. It is also much easier to communicate and mobilize support for things such as poverty focus, lack of demonstrable results, transparency and gender impact than on technical aspects. Qualitative aspects do not only include issues such as decision-making, transparency, monitoring and evaluations, etc. They also include qualitative aspects of quantitative problems, such as the scope and definition of additionality or leveraging, which can be debated without necessarily entering into the technical aspects of the problem.

There are risk and opportunities associated with both approaches. The quantitative debate has the potential to change the way or the amounts of ODA and other finance that can be reported for development purposes. In this regard, the risks for aid and/or financial inflation is real. However, accounting does not necessarily contribute to increasing the development impact of blending projects. As a corollary, it is hard to see how NGOs could focus on the most technical quantitative issues without also addressing the qualitative challenges that are much closer to their natural constituencies and do have a direct impact on the ground.

# ANNEX I: METHODOLOGY

This report relies on the analysis of the following sources or data:

- Research reports and other secondary documents referenced in the report.
- A purposely built database of projects funded by the different facilities. The database includes:
  - All HRITF projects and GFF Trust Fund projects as of 10 May 2016. HRITF projects have been included because the GFF Trust Fund is modelled on the HRITF, and the GFF has started operating very recently.<sup>86</sup> Total number of projects: 35 HRITF, 3 GFF
  - All projects listed in the DGGF website as of 10 May 2016, both approved and planned. Total number of projects: 47
  - All projects listed in the EU blending facilities database as of 10 May 2016. The database includes some but not all projects approved in 2015 and 2016. Total number of projects: 262.
- Interviews with experts and government officials:
  - Mirco Goudriaan, manager of the DGGF
  - Soren Peter Andreasen, Common Consultants
  - Paul Horrocks, OECD
  - Bruno Schoen, senior advisor and analyst, OECD, and
  - José Manuel Fernández, DEVCO C3, Financial Instruments, DG DEVCO.

# ANNEX II: EX ANTE ADDITIONALITY ASSESSMENT IN EC BLENDING PROJECTS

The table below has been extracted from the EC guidelines regarding the submission of blending projects. Project applicants are requested to report on the following elements.

**Annex Table: Additionality in EU blending projects**

<b>Additionality type</b>	<b>Questions</b>
<i>Economic</i>	What are the economic benefits of the EU contribution proposed? Why is the proposed EU funding necessary for the operation? Please list the economic benefits/positive externalities that may be realized by the project (or negative externalities avoided) that would not happen without the presence of the grant component, such as addressing market failures and avoiding market distortions.
<i>Financial</i>	What are the financial benefits of the EU's contribution to the project? How will this affect the end beneficiaries? E.g. through broadening access to finance to target groups; lowering end-user tariffs, etc.
<i>Social</i>	What are the social benefits of the EU's contribution? E.g. will this help address affordability constraints for low-income households, etc.?
<i>Project Scale</i>	How will the EU funding increase the scale of the project? Will it widen the results of the operation; or extend the benefits to a wider group of end beneficiaries?
<i>Project Timing</i>	In what way does the EU funding have a positive effect on the timing of the operation and/or the benefits it is expected to deliver?
<i>Project Quality and Standards</i>	How will the grant funding improve the quality of the outcomes expected from the operation? How will the grant funding improve the project's chances of success? How will the grant enable promotion of higher standards (including social and environmental) and more substantial social returns than would otherwise be possible?
<i>Innovation</i>	What are the innovative aspects of the project that could not be generated by or within the target environment without EU support? Why is the proposed innovation important?
<i>Sustainability</i>	Does EU funding help support further or parallel activities to ensure that benefits continue beyond the life of the project? For example does the EU funding contribute to structural reforms, support changes to legislation, regulation or policy? Does the EU finance enable demonstration effects for other participants in the market place?
<i>Environment</i>	What are the environmental benefits of the EU's contribution? Will it ensure that higher environmental standards are achieved?
<i>Other Benefits (if applicable)</i>	Please list any other significant benefits (not listed already above) that will accrue to the project as a result of the inclusion of EU funding.

Source: Facilities' websites.

# NOTES

- 1 More information on the lack of data and evidence can be found in DI. (2016). 'The Role of Blended Finance in the 2030 Agenda. Setting Out an Analytical Approach'. Discussion Paper. Bristol: Development Initiatives.
- 2 The GFF is not a blending facility per se but rather a coordination platform. It does not currently engage in blending activities, but its business plan does indicate that such activities may take place in the future. These might include, for example, leveraging the World Bank's AAA credit rating to issue a bond that would attract private investors that could provide the capital a government seeks to finance maternal and child health programmes. The GFF Trust Fund is an ODA facility within the GFF, and it would most likely be the component of the GFF that would engage in blending. As a result, the analysis in this report generally refers to the GFF Trust Fund.
- 3 Organisation for Economic Co-operation and Development (OECD) and World Economic Forum (WEF). (2015). *Blended Finance vol. 1: A Primer for Development Finance and Philanthropic Funders*. An overview of the strategic use of development finance and philanthropic funds to mobilize private capital for development. OECD and WEF, 2015.
- 4 UN-DESA. (2015). Workshop in preparation for the Third International Conference on Financing for Development: The role of catalytic aid in financing sustainable development. DCF [Development Cooperation Forum] Republic of Korea High-Level Symposium.
- 5 Ibid.
- 6 Unpublished document. The author does not authorize disclosure. More information is available upon request.
- 7 M.J. Romero. (2013). 'A Dangerous Blend? The EU's Agenda To "Blend" Public Development Finance with Private Finance'. Eurodad: Brussels; and EC. (2009). Working Group on the Additionality of Grants in the Framework of Blending Mechanisms. Final Report. EC, Directorate General of Economic and Financial Affairs.
- 8 S. Mustapha, A. Prizzon and M. Gavas. (2014). 'Blended Finance for Infrastructure and Low-Carbon Development'. Topic Guide. UK: Evidence on Demand.
- 9 OECD's definition of ODA, see:  
<http://www.oecd.org/dac/stats/officialdevelopmentassistance/definitionandcoverage.htm>. The rules about concessionality in ODA may change when the OECD considers new ways to count private sector instruments as ODA.
- 10 OECD-WEF.
- 11 Common Consultants. (2015). 'The Pitfalls of Innovative Private Sector Financing Emerging Lessons from Benchmarking of Investment Funds Supported By Aid Agencies'. Summary Report.
- 12 S. Steensen and R. Halvorson-Quevedo. (2016). 'Update on Efforts To Develop the TOSSD Measurement Framework'. Room Document 4. DCD/DAC/RD(2016)3/RD4.
- 13 M.J. Romero. (2015). 'What Lies Beneath? A Critical Assessment of PPPs and Their Impact on Sustainable Development'. Brussels: Eurodad.
- 14 EPEC. (2016). 'Blending EU Structural and Investment Funds and PPPs in the 2014–2020 Programming Period Guidance Note'. European PPP Expertise Centre.
- 15 In the discussion about blending, many authors use the term 'barriers' to refer to obstacles faced by similar investments and not necessarily to those faced by the project itself. For example, a project might receive a grant to demonstrate the real risk/return profile of other actors. This is the 'demonstration effect'. For the demonstration effect to exist, the project itself must be confronted with the uncertainty barrier first. As a consequence, and to simplify the discussion, this report focuses on the relationship between the grant and the blending project.
- 16 OECD-WEF.
- 17 OECD-WEF.

- 18 Ibid.
- 19 The author has not authorized the disclosure of the information. More information is available upon request.
- 20 Pereira. 'Understanding'.
- 21 According to data from the OECD DAC CRS database.
- 22 Steensen and Halvorson-Quevedo.
- 23 J. Pereira. (2015). 'Understanding Donor Engagement with the Private Sector' in *Development in Business Accountability for Development: Mapping Business Liability Mechanisms and Donor Engagement with Private Sector in Development*. CPDE [Civil Society Organization Partnership for Development Effectiveness in cooperation with ITUC-TUDCN [International Trade Union Confederation-Trade Union Development Cooperation Network] and Eurodad.
- 24 See: IOB. (2014). 'In Search of Focus and Effectiveness'. Policy review of Dutch support for private sector development 2005–2012 (extensive summary). IOB Evaluation, Dutch Ministry of Foreign Affairs; and ECA. (2014). 'The Effectiveness of Blending Regional Investment Facility Grants with Financial Institution Loans To Support EU External Policies'. Special Report 16, European Court of Auditors.
- 25 Ibid.
- 26 J. Pereira. (2015). 'Leveraging Aid. A literature review on the additionality of using ODA to leverage private investments'. London: UK Aid Network.
- 27 Ibid.
- 28 See also the DGGF's 'quickscan' form, available at: <http://english.dggf.nl/file/download/40084342>
- 29 See, for example: EY. (2012). 'Mid-Term Evaluation of the EU-Africa Infrastructure Trust Fund'. Final Report; CEPA. (2014). Report of the Development Results of EU-Africa ITF 2007-2012. European Investment Bank (EIB). Final report; and DRN-ECDPM-ECORYS-PARTICIP. (2013). 'Mid-Term Evaluation of the Neighbourhood Investment Facility Under the European Neighbourhood and Partnership Instrument (ENPI) 2007-2013'. Final Report, vol. 1.
- 30 For example: EY; and J. Martinez, M. Pearson, B.H. Sørensen, B. James and C. Sambo (2012). *Evaluation of the Health Results Innovation Trust Fund*. Norad.
- 31 DRN-ECDPM-ECORYS-PARTICIP; and Martinez et al.
- 32 See, for example, project documents referred to in Pereira. 'Leveraging'.
- 33 G. Boocock and M.N.M. Shariff. (2005). 'Measuring the Effectiveness of Credit Guarantee Schemes: Evidence from Malaysia'. *International Small Business Journal*, 23(4), 427-54.
- 34 Based on EC. (2014). 'EUBEC Platform – Technical Group 6: Mobilization of Private Sector Resources'. Report to the Policy Group. EU Platform for Blending in External Cooperation; and ECA. (2012). 'Financial instruments for SMEs Co-Financed by the European Regional Development. European Court of Auditors', Special Report 2.
- 35 Interview with José Manuel Fernández.
- 36 Romero. 'Dangerous Blend'.
- 37 Inter-American Development Bank. (2014a). 'Mid-Term Evaluation of IDB-9 Commitments. Assessment of IDB-9's Private Sector Development Framework'. Background Paper. Washington, DC: Office of Evaluation and Oversight; and Independent Evaluation Group. (2008). 'Independent Evaluation of IFC's Development Results 2008. IFC's Additionality in Supporting Private Sector Development'. Washington, DC: World Bank.
- 38 EC. (2016). 'Latin America Investment Facility – Caribbean Investment Facility'. 2015 Operational Report.
- 39 C. Sangaré, G.M. Semeraro, T. Hos and W. Bartz. (2016). 'Measuring Mobilisation in the DAC Statistical System'. DCD/DAC/STAT (2016) 3.
- 40 Ibid.

- 41 J. Benn, V. Gaveau and G.M. Semeraro. (2016). 'Implementation of the Principles of ODA Modernisation on Private-Sector Instruments'. *Determining the Appropriate Risk Premiums*. DCD/DAC/STAT(2016)10.
- 42 Sources: Interviews; EC data; World Bank. (2015). Global Financing Facility in Support of Every Woman Every Child. Business Plan. Washington, DC: World Bank; and GFF. (2015). CSO Consultation, 14 November 2015. Global Financing Facility in Support of Every Woman Every Child.
- 43 Interview with Jose Manuel Fernandez – DEVCO C3, Financial Instruments.
- 44 J. Pereira. (2016). 'The Development Effectiveness of Supporting the Private Sector with ODA Funds. Brussels: Trade Union Development Cooperation Network.
- 45 World Bank. 'Support'.
- 46 Interviews, EC database of blending operations: [https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations\\_en](https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en) ; and World Bank. 'Support'.
- 47 Interview with the DGGF manager, Mirco Goudriaan.
- 48 ECA. (2014). 'The Effectiveness of Blending Regional Investment Facility Grants with Financial Institution Loans To Support EU External Policies'. Special Report 16, European Court of Auditors.
- 49 EY; and CEPA. (2014). Report of the Development Results of EU-Africa ITF 2007-2012. EIB. Final report.
- 50 CEPA.
- 51 DRN-ECDPM-ECORYS-PARTICIP.
- 52 For more information, see: <http://www.courtofaudit.nl/english/Publications/Audits/Introductions/2016/03>
- 53 Martinez et al.
- 54 For example, see the following impact assessment of 'Plan Nacer' in Argentina: [https://www.rbhealth.org/sites/rbf/files/Argentina\\_Can%20Short%20Term%20Incentives%20Change%20Long%20Term%20Behavior.pdf](https://www.rbhealth.org/sites/rbf/files/Argentina_Can%20Short%20Term%20Incentives%20Change%20Long%20Term%20Behavior.pdf)
- 55 In the ITF, it is the EC and donor member states, with non-donor member states and the EIB as observers. However, the AfIF that replaces the ITF has adopted the same governance structure as the other facilities.
- 56 Interviews; GFF. (2015). Governance Document for the Global Financing Facility in Support of Every Woman Every Child; EC. (2015). ANNEX of the Commission Decision on the individual measure 'creation of an Africa Investment Facility' under the 11th European Development Fund. Action Document for the creation of the Africa Investment Facility; and Romero. 'Dangerous Blend'.
- 57 Internal Oxfam assessment of the High Quality Rose Farming project supported by DGGF. More information available from Hilary Jeune ([hilary.jeune@oxfaminternational.org](mailto:hilary.jeune@oxfaminternational.org)) or Uwe Gneiting ([uwe.gneiting@oxfam.org](mailto:uwe.gneiting@oxfam.org)). Recently, protestors in Ethiopia have attacked seven foreign-owned flower farms, including the Dutch-owned Esmeralda Farms. Foreign investment in land to produce flowers has been controversial in Ethiopia. See [https://www.washingtonpost.com/world/africa/ethiopia-imposes-state-of-emergency-as-unrest-intensifies/2016/10/10/7825391e-8ee9-11e6-bc00-1a9756d4111b\\_story.html](https://www.washingtonpost.com/world/africa/ethiopia-imposes-state-of-emergency-as-unrest-intensifies/2016/10/10/7825391e-8ee9-11e6-bc00-1a9756d4111b_story.html). This raises questions about due diligence performed before funding the rose growing project.
- 58 Romero. 'Dangerous Blend'.
- 59 EC. (2015). Commission Decision of 29.7.2015 on the individual measure 'Creation of the Africa Investment Facility' under the 11th European Development Fund. C(2015) 5210 final.
- 60 Pereira. 'Development'.
- 61 Ibid.
- 62 DRN-ECDPM-ECORYS-PARTICIP.
- 63 Ibid.

- 64 Information on CSO participation in country platforms provided by Katie Malouf Bous of Oxfam International.
- 65 M. Vervynckt. (2015). 'An assessment of transparency and accountability mechanisms at the European Investment Bank and the International Finance Corporation'. Brussels: Eurodad.
- 66 See the aid transparency index at: <http://ati.publishwhatyoufund.org/>.
- 67 The EU blending facilities' project database is available at: [https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations\\_en](https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en).
- 68 Ibid.
- 69 Interviews, facilities' websites.
- 70 ECA. (2014). The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies. Special Report 16, European Court of Auditors.
- 71 Information from the interviews; and C. Daniel, K. Genovese, M. van Huijstee and S. Singh (eds.) (2016). *Glass Half Full? The State of Accountability in Development Finance*. Amsterdam: SOMO.
- 72 Ibid.
- 73 GFF. (2016). Global Financing Facility in Support of Every Woman Every Child. Frequently Asked Questions. Washington, DC: World Bank. See: [http://www.worldbank.org/content/dam/Worldbank/document/HDN/Health/GFF-FAQ\\_May%2018,%202015\\_EN.pdf](http://www.worldbank.org/content/dam/Worldbank/document/HDN/Health/GFF-FAQ_May%2018,%202015_EN.pdf).
- 74 See the 'Memorandum Regarding IFIs Harmonized Development Results Indicators for Private Sector Investments', available at: <http://www.ifc.org/wps/wcm/connect/d7d1128041773cdb9af3bb9e78015671/Harmonization+MOU.pdf?MOD=AJPERES>.
- 75 EC. (2015). 'Annex of the Commission Decision on the individual measure "creation of an Africa Investment Facility" under the 11th European Development Fund'. Action Document for the creation of the Africa Investment Facility; EC (2014) Commission Implementing Decision of 20.8.2014 on the European Neighbourhood-Wide Action Programme 2014 to be financed from the general budget of the European Union. C(2014) 5750 final.
- 76 Daniel et al.
- 77 CEPA.
- 78 See endnote 57.
- 79 Martinez et al.
- 80 Ibid.
- 81 Information on results-based approach provided by Katie Malouf Bous, of Oxfam International.
- 82 F. Campos, A. Coville, A.M. Fernandes, M. Goldstein and D. McKenzie. (2012). *Learning from the Experiments That Never Happened: Lessons from Trying To Conduct Randomized Evaluations of Matching Grant Programs in Africa*, vol. 1. Policy Research Working Paper. Washington, DC: World Bank.
- 83 European Bank for Reconstruction and Development (EBRD). (2014). Public Information Policy; AFD transparency policy, available at: <http://www.afd.fr/lang/en/home/AFD/redevabilite-dialogues/politique-transparence/transparence-questions-reponses>
- 84 EIB. (2015). The EIB Group Transparency Policy.
- 85 Pereira. 'Development'.
- 86 World Bank. 'Support'.

# ACKNOWLEDGEMENTS

This report was written by Javier Pereira, an independent consultant based in Brussels. Thanks for comments and assistance are extended to Jesse Griffiths and Jeroen Kwakkenbos at Eurodad; Katie Malouf Bous, Marc Cohen, Lies Craeynest, Nick Galasso, Uwe Gneiting, Hilary Jeune, Daniela Rosche, Hanna Saarinen and Julie Seghers at Oxfam; additional Oxfam colleagues who participated in the Oxfam Official Development Assistance-Private Finance Workshop, held in Brussels, 12–13 July 2016; Shannon Kindornay at the University of Ottawa and Cordelia Lonsdale and Cecilia Caio at Development Initiatives. Thanks also go to Sally Bolton and Ketura Persellin for editorial services.

## Research reports

This research report was written to share research results, to contribute to public debate and to invite feedback on development and humanitarian policy and practice. It does not necessarily reflect the policy positions of the publishing organizations. The views expressed are those of the author and not necessarily those of the publishers.

For more information, or to comment on this report, email [hilary.jeune@oxfaminternational.org](mailto:hilary.jeune@oxfaminternational.org)

© Oxfam International February 2017

This publication is copyright but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged. Email [policyandpractice@oxfam.org.uk](mailto:policyandpractice@oxfam.org.uk).

The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-0-85598-897-5 in February 2017.  
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

## OXFAM

Oxfam is an international confederation of 20 organizations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty. Please write to any of the agencies for further information, or visit [www.oxfam.org](http://www.oxfam.org).

## EURODAD

Eurodad (the European Network on Debt and Development) is a network of 47 civil society organisations (CSOs) from 20 European countries, which works for transformative yet specific changes to global and European policies, institutions, rules and structures to ensure a democratically controlled, environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all. For more information see <http://www.eurodad.org>.