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Review of the main European development cooperation strategies to encourage investments in Africa and in the Neighborhood countries: a focus on blending facilities

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List of acronyms

AFD	Agence Française du Développement
AfIF	African Investment Facility
AgriFI	Agriculture Financing Initiative
AICS	Agenzia Italiana Cooperazione allo Sviluppo
CDP	Cassa Depositi e Prestiti
DAC	Development Assistance Committee
DFI	Development Finance Institutions
DG DEVCO	Directorate-General for International Cooperation and Development
EC	European Commission
EFSD	European Fund for Sustainable Development
EIP	External Investment Plan
ElectriFI	Electrification Financing Initiative
EU	European Union
EU-AITF	EU-Africa Infrastructure Trust Fund
IPE	Investment Plan for Europe
KfW	Kreditanstalt für Wiederaufbau
MAECI	Ministero Affari Esteri e Cooperazione Internazionale
MSMEs	Micro, Small and Medium-Size Enterprises
NIF	Neighborhood Investment Facility
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PPP	Public-Private Partnership
SDG	Sustainable Development Goal
SIMEST	Società Italiana per le Imprese all'Estero
SMEs	Small and Medium-Size Enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
TOSSD	Total Official Support for Sustainable Development
UN	United Nations

1. Executive summary

The European Union (EU) is playing a strategic role in supporting the African economic development. African countries are showing a great potential for sustained economic growth, with average rates of 5% per year, and have registered one of the fastest rates of improvements in human development over the past two decades. Nonetheless, Africa still registers the lowest average levels of human development compared to other regions in the world. High inequality, environmental vulnerability, weak structural transformation and conflicts hamper progresses. Moreover, the Africa's population is expected to double by 2050. This will result in additional 60 million young people entering the labor market and 75 million new urban dwellers in need of housing in the next twenty years, which is likely to intensify the migration flows to Europe.

This study analyses the main European cooperation policies and investment programs for Africa and the Neighborhood countries, through literature review and an analysis of the legislative history (especially those related to the case of France and Italy).

It focuses on the recent launch (in 2016) of the European Commission External Investment Plan (EIP) which promotes investments in Africa and the Neighborhood Countries to create decent job opportunities, stimulate a sustainable development and, ultimately, tackle some of the root causes of migration.

The EIP acknowledges that the traditional public development assistance is essential but not sufficient to address development challenges. It recognizes that the mobilization of private resources to complement scarce public ones is increasingly necessary. To this aim, it offers an integrated framework to promote the participation of the private sector in financing for development and to develop a blending agenda, which combines EU grants with loans or equity from public and private financiers.

This study also includes a review of the EU blending facilities covering Africa and the Neighborhood countries: the EU-Africa Infrastructure Trust Fund (EU-AITF), the African Investment Facility (AfIF), the Neighborhood Investment Facility (NIF) and the two thematic initiatives, ElectriFI (the Electrification Financing Initiative) and AgriFI (Agriculture Financing Initiative).

These facilities, which reflect the EU geographical and thematic priorities, mainly aim to finance energy and transport infrastructure initiatives, access to clean water, waste treatment, housing, health and environmental projects. They aim to support the local private sector, notably micro, small and medium-size enterprises (MSMEs), to strengthen local production capacity and foster job creation. They are also expected to be relevant in addressing specific challenges faced at regional level by financing large scale projects. These, in order to be sustainable, should support both regional integration and the sharing and diversification of risks over different regions.

EU grant contributions allocated through blending facilities are part of the resources used by the European Development Finance Institutions (DFIs) to support the private sector and attract private investments in key sectors. DFIs have therefore become key actors to implement blending operations, reinforce public-private partnerships (PPPs) and fill the development financing gap.

Among the European DFIs, the French Development Agency (Agence Française de Développement - AFD) and its private sector financing arm Proparco, are leading blending operations for

development projects. The Italian cooperation system have only recently institutionalized the role of the private sector in development cooperation, through the Italian Law No. 125/2014. The Law identifies the Cassa Depositi e Prestiti (CDP) as the operating financial arm with a role of technical and financial advisor for the Italian Ministry for Foreign Affairs and Cooperation (MAECI - Ministero Affari Esteri e Cooperazione Internazionale) and for the Development Cooperation Agency (AICS - Agenzia Italiana per la Cooperazione allo Sviluppo).

The growing institutionalization of the role of the private sector in development is motivated by its potential to leverage private resources that are additional to public funds aimed at reaching development objectives. European blending facilities are welcomed as an instrument to allow the private sector playing its role in creating jobs, boosting growth and fighting poverty in low and middle income countries. Nonetheless, some caution is necessary: there is still a limited body of evidence in this area and a number of stakeholders, especially among the civil society, call for more in-depth analysis to identify good practices.

By means of a SWOT analysis, this study highlights the strengths and weaknesses of blending operations based on the available evidence. It then evaluates the opportunities and threats of blending mechanisms as tools for external development cooperation. It also points out some initiatives that are already in place and could effectively address some of the identified weaknesses and threats. The results from the SWOT analysis provide some recommendations for good practices and actions that might be undertaken to increase the effectiveness of blending facilities as instrument for achieving the EU external policy objectives. The following is a summary of these recommendations.

- **Blending operations should more clearly align with development objectives**, in order to effectively close the development financing gap and attract investments in key countries and sectors. Moreover, **they should align with the local, regional and institutional development strategies** by involving partner countries in the initiatives design and in their implementation process.
- **A monitoring and evaluation system – conceived on the basis of a clear theory of change - should be set up. It will ensure that data are collected and analyzed on how various actors use blended finance and it will provide reliable and comparable evidence on the** financial, operational, institutional and systemic (development impact) **additionality of blending operations.**
- **Financial flows should be more transparent**, to ensure the alignment of blending operations with development objectives, and on their impact on local communities and the environment.
- **Blending initiatives should be complementary not substitutive to traditional development assistance**. Resources allocated for blending initiatives, even if they have a potential development impact, should not incentivize donors to reduce Official Development Assistance (ODA) and should not crowd out public investments.
- **Blending initiatives should focus more specifically on job creation,** by targeting more effectively MSMEs that operate in developing countries, by promoting their growth and supporting their capacity.

2. Introduction: targeting Africa

The objective of this study is to review the main European development policies and cooperation programs as well as the international investments targeted to Africa and the Neighborhood countries.

Africa has great potential for sustained economic growth. Over the past 15 years, the African average GDP has been above 5%, due to several African countries such as Côte d'Ivoire, Djibouti, Ethiopia, Mozambique, Rwanda and Tanzania which registered the highest growth rates in the world (between 6 and 10%)[1]. In 2014 and 2015, Africa's overall growth reached respectively 4.2% and 3.7%, with a declining trend that continued to deteriorate in 2016. However, in 2016, East Africa registered the highest growth rate, followed by West Africa and Central Africa, while North Africa and Southern Africa recorded the lowest rates (see *Table 1*). Africa's economic growth is expected to pick up again in 2017 and to continue to increase in 2018[2].

***Table 1*: Africa's growth by region, 2014-2017**

	2014	2015	2016	2017
Africa	3.7	3.6	3.7	4.5
Central Africa	6.1	3.7	3.9	5.0
East Africa	6.5	6.3	6.4	6.7
North Africa	1.4	3.5	3.3	3.8
Southern Africa	2.8	2.2	1.9	2.8
West Africa	6.0	3.3	4.3	5.5

Source: Statistics Department, African Development Bank.
N.B: data for 2015 are estimated and data for 2016 and 2017 are projected.

According to the World Bank (2017) and the European Parliamentary Research Service (2016)[3], the positive growth trends can be attributed to the improved political and macroeconomic climate, the improved business climate, the increase in the volume of external financial flows (private capital flows, ODAs and remittances) and the demographic growth that makes Africa the region with the largest and youngest workforce. As a matter of fact, African population represents the 17% of the world population and is mainly made of youth (the average age in Africa is 18 years old).

The United Nations (UN) estimates that in twenty years an additional 60 million young people will need employment, and therefore training, and 75 million new urban dwellers will need housing.

These trends have tremendous implications for inclusive growth and development. Africa has made progresses in human development as the region currently ranks third (behind East Asia and South Asia) in terms of the annual percentage change in human development index[4]. Nonetheless, most

[1] African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2016). African Economic Outlook 2016: Sustainable cities and structural transformation

[2] World Bank Group (2017). Africa's Pulse, World Bank, No. 15, 2017

[3] Zamfir, I. (2016). *Africa's Economic Growth: Taking Off Or Slowing Down?*. Members' Research Service, Directorate-General for Parliamentary Research Services, European Parliament

[4] African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2016). African Economic Outlook 2016: Sustainable cities and structural transformation

African countries (especially those in East and West Africa) still register the lowest levels of human development. High inequality, environmental vulnerability, weak structural transformation and conflicts hamper progresses. To ensure that the 1.2 billion people in Africa have enough food, water, energy and employment opportunities and that the environment is protected against these changes, huge investments are necessary.

The European Union is playing a strategic role in this sense. The EU has been strongly committed to support economic development in sub-Saharan Africa since the Cotonou Agreement signed in 2000. In 2014, the Joint Africa-EU Strategy Roadmap 2014-2017 defined a cooperation framework between the EU and Africa at continental level. The common strategy established the following as key areas of cooperation: peace and security; democracy, good governance and human rights; human development; sustainable and inclusive development and growth and continental integration; global and emerging issues. In this framework, one of the strategic objectives is to "*stimulate economic growth that reduces poverty, create decent jobs and mobilize the entrepreneurial potential of people, in particular the youth and women, in a sustainable manner; support development of private sector and SMEs; support the continental integration process, notably through accelerated infrastructure development, energy, industrialization and investment*"[5].

2017 will be a crucial year to strengthen the partnership between Europe and Africa, as the 5th Africa-EU Summit will take place on 29th-30th November in Ivory Coast. The ambition is to define a new common agenda of inclusive growth and development with the following two main objectives:

- to build more resilient states and societies;
- to create more and better jobs, especially for youth.

With reference to the second objective, the initiative is supported by a number of actions, among which[6]:

- the attraction of responsible and sustainable investments by structuring a dialogue with European and African private sector and by encouraging responsible and sustainable investments, in particular in sectors including sustainable energy, water, transport, information and communications technologies, environment, sustainable use of natural resources and blue growth, social infrastructure, human capital; by supporting Africa's entrepreneurs, SMSEs and start-ups through dedicated local business support structures and services and by leveraging resources from capital markets;
- investments in the energy sector, especially renewable energy, by facilitating public-private cooperation, helping African governments in improving the enabling environment for the energy sector, integrating energy markets in Africa and harmonizing electricity regulation, promoting cross-border interconnections to ensure a reliable and affordable energy supply;
- the transformation of the African agriculture and agro-businesses, facilitating private sector investments, assisting Africa in seizing market opportunities for the African food production, increasing the sustainable productivity of the African fisheries sector, promoting

[5] EU (2014), Fourth EU-Africa Summit, 2-3 April 2014, Roadmap 2014-2017. Brussels

[6] European Commission, European External Action Service (2017). European Commission Joint Communication to the European Parliament and the Council for a renewed impetus of the Africa-EU Partnership. JOIN/2017/017/final. Brussels, 4 May 2017

the implementation of climate action in Africa agriculture and effective mainstreaming of climate change adaptation, biodiversity conservation and restoration and disaster-risk reduction in African agriculture policies;
- the improvements of knowledge and skills, supporting quality education at all levels and intensifying Africa-EU collaboration on research.

Considering this framework and in line with the ongoing reflection within the European Commission (EC) on the European-African partnership, this study focuses on the EU's actions and strategies to turn these objectives into a transformative agenda. In particular, it analyzes the growing role recognized to the private sector in economic and social development (*Section 3.1*). It then reviews the European External Investment Plan, which provides a coherent and integrated framework to encourage investments in Africa and in the EU Neighborhood countries (*Section 3.2*).

At the heart of the EIP lies the purpose to boost private investments and complement the scarce public resources, in order to develop the business environment and investment climate, advance Africa's economic integration process at national, regional and continental level, as well as to crowd in public and private investments across the continent. This study focuses on blending mechanisms as instruments to achieve the EU external policy objectives (*Section 3.3*) through the combination of public and private resources, grants from the ODA and loans. A particular attention is given to those blending facilities that covers Africa and the Neighborhood countries and that focus on the energy and agricultural sectors (*Section 4*).

The study also reviews the experiences of the French and Italian cooperation system in using blending facilities and provides a mapping of investment programs launched through blending facilities and leaded by the AFD and the Italian CDP (*Section 5*). The case of France is particularly interesting as the AFD is a leading actor in blending finance, while the case of Italy is interesting because of its innovating and renewed development aid system (after the 2014 reform).

Finally, thanks to a literature review and by means of a SWOT analysis (*Section 6*), the study proposes a summary of the main opportunities for and, on the other hand, threats to blending finance for development.

Section 7 concludes suggesting some good practices and actions which might be undertaken to ensure the effectiveness of blending initiative as a development cooperation tool.

3. Background

3.1 The growing role of the private sector in economic and social development

The post-2015 United Nation's agenda for sustainable development sets 17 broad and ambitious goals to be achieved by 2030. The goals encompass social, environmental and economic aspects. In addition, the agenda promotes a public-private partnership as a strategy to fill the significant financing gap faced by developing countries to meet these goals.

According to the OECD (2017)[7], the net ODA flowing to least developed countries amount to USD 142.6 billion, representing an increase of 8.9% compared to 2015, continuing a rising trend since the turn of the millennium. Net ODA to Africa was USD 27 billion in 2016 of which USD 24 billion was for sub-Saharan African countries.

Despite this growth in ODA, there is a resource gap to address the Sustainable Development Goals (SDGs) that the international assistance does not reach. ODA from countries in the OECD Development Assistance Committee (DAC) averaged 0.32% of gross national income in 2016. Only six countries met the 0.7% of national income ODA target: Denmark, Luxembourg, Norway, Sweden, United Kingdom and Germany, that reached this target for the first time in 2016. The total need for investment in developing countries is estimated at about USD 3.3 to USD 4.5 trillion per annum over the SDG period[8].

These investments are mainly required for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health and education. The raising population increases the demand for all these investments, putting a strain on the public-sector capacities in Southern countries. Moreover, instability and conflicts exacerbates financing needs for development.

To fill this development financing gap, the international community identifies the need to mobilize private resources and apply innovative financing models. The 2002 International Conference on Financing for Development in Monterrey and, then, the 2008 Doha Conference, recognized to the ODA and other mechanisms, such as, inter alia, guarantees and public-private partnerships, a catalytic role in mobilizing private flows. In 2011, the Fourth High Level Forum on Aid Effectiveness at Busan engaged the private sector in aid and development effectiveness in order to advance innovation, create income and jobs, mobilize domestic resources and further develop innovative financial mechanisms. Finally, this position was confirmed during the 2015 Addis Ababa Action Agenda on financing for development when the role of private businesses and finance in the development agenda was emphasized.

This political willingness has influenced the fast growth of ODA flowing to the private sector, even if it is still a small proportion of the total. ODA canalization through EU blending facilities has substantially increased from EUR 15 million in 2007 (0.2% of institutional ODA) to EUR 490 million in 2012 (4% of institutional ODA)[9].

In this framework, blending mechanism are expected to unlock sources of finance with a development objective and move "*from billions to trillions*" to achieve the SDGs. More in general, blending mechanisms have been identified as an opportunity to concretize the principle of PPPs, according to which private sector investments are mobilized as complementary to, not competitive with, public funds.

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[7] Data released the 20th September 2017 on the OECD website https://www.oecd.org/dac/ financing-sustainable-development/development-finance-data /ODA-2016-detailed-summary.pdf.

[8] United Nations (2014). World Investment Report 2014. Investing in the SDGs: an action plan. United Nations, New York and Geneva, 2014

[9] Data from Romero, M. J. (2013) "A dangerous blend? The EU's agenda to 'blend' public development finance with private finance." *Eurodad: Brussels*

3.2 The EU External Investment Plan and the EU-Africa partnership

The EU endorsed the Aid Effectiveness goals of the Paris Declaration (2005) and the ACCRA Agenda for Action (2008). To fulfill these objectives, the European Commission launched new financing instruments, also aimed at reducing the budget directly allocated for the international cooperation and at exploiting the multiplier effect generated by a small concessional component through loans.

Being the biggest world development and humanitarian aid donor and, in particular, the Africa's main partner, the EU external policy focuses on encouraging investment in Africa and the EU Neighborhood and strengthening the EU-Africa partnership.

To this aim, under the President Jean-Claude Juncker leadership, in September 2016, the European Commission launched the European External Investment Plan (EIP).

The plan is drawn on the experience of the European Commission's Investment Plan for Europe (EC-IPE), also known as the "Juncker plan", which is aimed at re-launching a sustainable growth and employment opportunities in Europe[10]. The plan is considered as successful as, after one year, the combination of EUR 16 billion guarantee from the EU budget and EUR 5 billion of EIB resources has sparked investments with the potential to trigger EUR 100 billion[11].

Going hand in hand with this plan, the funding opportunities offered by the EIP design a "win-win" situation for EU enterprises who wish to expand their activities into developing countries and for the local private sector that will benefit of additional investments.

Indeed, the EIP sets out a framework allowing European countries to strengthen effective partnerships in Africa and in the Neighborhood countries and to promote the participation of the private sector in financing for development. Further, the EIP offers an integrated framework to promote the participation of the private sector in financing for development and to develop a blending agenda, which is the combination of EU grants with loans or equity from public and private financiers.

The final objective is to leverage investments and to create employment opportunities in countries and regions that are experiencing significant migratory pressures and, ultimately, to address the root causes of migration. Indeed, the EIP is part of the EU's New Migration Partnership Framework endorsed at the European Council in 2016.

The EIP works on three pillars:

1. an investment fund – the European Fund for Sustainable Development (EFSD) - which provides a new guarantee to reduce the risk for private investments and absorbs potential

[10] The EC-IPE was announced in 2014, with the initial objective to mobilize EUR 315 billion over three years (from 2015 to 2018). Part of these sums (EUR 21 billion) is guaranteed by the European Commission and by the European Investment Bank (EIB), to inject in the economy through loans EUR 63 billion. Then, the EIB aims to finance the riskier part of the projects and thus to attract private investments for the remaining EUR 250 billion. According to the EC's report "*Investment Plan for Europe. The first year*", since its launch in 2015, the EC approved EUR 115.8 billion of total investment, of which EUR 10.9 billion signed, benefiting more than 200˙000 SMEs (data as of 19/07/2016). On December 2016, the EC agreed with a Juncker Plan's extension beyond its 2018 first deadline, until the end of 2020, to raise up to EUR 500 billion through the European Investment Fund and, eventually, to reach EUR 630 billion in investments by 2022.

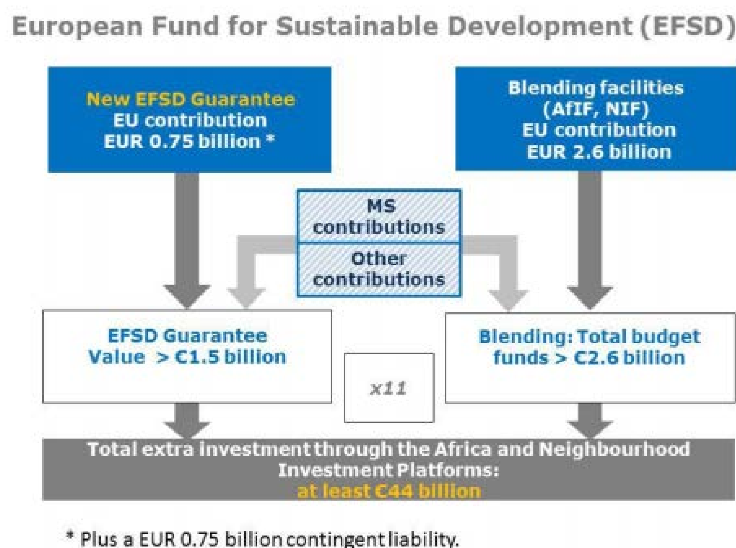
[11] European Investment Bank, European Investment Fund (2016). Investment Plan for Europe. The first year. Luxembourg, 09/2016

losses incurred by eligible counterparts. The guarantee is passed on to intermediary financing institutions which, in turn, lend support to final beneficiaries through loans, guarantees, equity or similar products. The EFSD is composed of two regional Investment Platforms (Africa and EU Neighborhood) which combines existing blending instruments with the new additional guarantee for public and private investors;

2. technical assistance to help local authorities and companies to develop financially attractive projects, by structuring a dialogue among European private investors and businesses in partner countries, by facilitating and supporting inclusive public-private policy dialogue in partner countries, by providing capacity-building for the private sector;
3. a range of dedicated thematic, national and regional EU development cooperation programs; a legal framework to facilitate a structured political dialogue, to promote an investment climate and to improve the overall policy environment in the concerned countries.

The EFSD is expected to mobilize additional public and private investment in Africa and in the Neighborhood countries for EUR 44 billion until 2020. To this aim, the EFSD Guarantee has a cash provision of EUR 0.75 billion: EUR 0.35 billion are guaranteed by the European budget and EUR 0.4 billion by the European Development Fund. The EFSD will also combine resources (EUR 2.6 billion) from the Neighborhood Investment Facility and Africa Investment Facility. Member States and other partners are thus called to match these EU contributions. If this will be the case, the European Commission estimates that the total amount of additional investment could reach a sum of EUR 62 billion, with a potential leverage effect of EUR 88 billion, that is more than EU ever invested in development aid (see *Figure 1*).

***Figure 1*: The External Investment Plan investment mobilization scheme**



Source: Communication From The Commission To The European Parliament, The Council, The European Central Bank, The European Economic And Social Committee, The Committee Of The Regions And The European Investment Bank. "Strengthening European Investments for jobs and growth: Towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan". Brussels, 14 September 2016. COM(2016) 581 Final.

In the last ten years, the EU grants financed over 380 projects allocating about EUR 3.4 billion. These grants leveraged EUR 26.2 billion of loans granted by European finance institutions such as the European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement (AFD) and the Kreditanstalt für Wiederaufbau (KfW).

The European Commission estimates that these blending operations unlocked EUR 57.3 billion of investments in EU partner countries[12]. Financed projects support energy and transport infrastructure initiatives in 60% of the case; invest in social infrastructure related to the access to clean water, waste treatment, housing, health as well as the environment in 26% of the cases. Financed projects also support the local private sector, notably MSMEs, in strengthening local production capacity and fostering job creation for 14% of the grant funds. The European Parliament[13] hence highlights that there is still an untapped potential in sectors such as agriculture, education, green technologies, research and innovation, health and property rights.

3.3 European "blending" mechanisms

In the framework of the EU External Investment Plan, "blending" is recognized as an important instrument for achieving the EU external policy objectives, complementary to other aid modalities.

The concept of "blending" is not new, but the interest in blended finance has mushroomed over recent years seeing the opportunity to scale up both public and private financing for development. The current amount of private investments reaching developing countries through blending mechanisms is 1% of total flows, far less than other sources such as ODA, remittances and foreign direct investment. But, the use of blended finance is growing: private investments mobilized by blended finance have grown by around 20% annually between 2012 and 2014; by contrast, net ODA grew by 3.5% per annum over that period[14].

In Europe, the concept has acquired more relevance during the last decade. Since the 2008 financial crisis, blending has been seen as an opportunity to address a situation of sub-optimal investments levels and therefore to encourage investments in countries and sectors which are unattractive or risky. In economic terms, blending is seen as a corrective measure in case of market failures and higher socio-economic than financial returns.

But, what does "blending" mean? There is no single, universal definition of blending, as the term nowadays encapsulates many examples of development programs that combine public and/or private development financial flows (aid and philanthropic funds) with other public or private capital. But, the three elements that characterized blended finance are[15]:

- leverage: the use of development finance and philanthropic funds to attract private capital;
- impact: investments that drive social, environmental and economic progress;

[12] https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

[13] European Parliament (2016). Private sector and development. European Parliament resolution of 14 April 2016 on the private sector and development (2014/2205(INI))

[14] Development Initiatives (2016). Blended Finance: understanding its potential for Agenda 2030. Bristol, November 2016

[15] World Economic Forum (2015). A how-to guide for blended finance. World Economic Forum, Geneva, September 2015

- returns: returns for private investors in line with market expectations based on perceived risk.

The EC defines blending as "*an instrument for achieving EU external policy objectives, complementary to other aid modalities and pursuing the relevant regional, national and overarching policy priorities. Blending is the combination of EU grants with loans or equity from public and private financiers*" (European Commission, 2014)[16].

The EU contribution consists in investment grant and/or interest rate subsidy to reduce the initial investment and overall project cost for the partner country. The "grant" element also may include technical assistance to help with the preparation and management of projects and to ensure their quality, efficiency and sustainability. Other forms of support are risk capital (e.g. equity or quasi-equity) to attract additional financing and guarantees to unlock financing by reducing risk.

The EC recognizes some key principles that should be considered in evaluating blending initiatives[17]:

- "additionality of blending": the extent to which the grant component has leveraged investment for projects (that would otherwise not have taken place at all or on worse terms or only later) with development purposes;
- "alignment": the extent to which financed projects (in particular public infrastructure projects) are aligned with EU country and regional strategies/policies and with the national/regional priorities of beneficiary countries;
- "ownership": the extent to which beneficiaries, public sector (national/regional governments) or private sector (banks, etc.) are involved in project identification, formulation and implementation;
- "Policy leveraging": the extent to which blending has enabled donors (EU and Member States) to have a wider impact on the policy environment of recipient countries and to provide appropriate support in strategic sectors;
- "visibility": the EU visibility as a global player increased through the use of blending.

To provide funding in support of the Union's external policies and mobilize investments, the EU organizes its blending operations through regionally or thematically focused financial instruments (see *Figure 2*).

Under the Development Cooperation Instrument Blending Framework, there are the Latin America Investment Facility, the Asia Investment Facility and the Investment Facility for Central Asia. Under the European Development Fund Blending Framework, there are the Africa Investment Facility, the EU-Africa Infrastructure Trust Fund, the Caribbean Investment Facility and the Investment Facility for the Pacific.

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[16] It would be more precise to distinguish between private-finance blending, that is public finance blended with private finance, and blending of different sources of public finance, which might better be termed "pooling". On this topic, see: Oxfam International (2017), Private-Finance blending for development – risks and opportunities, Oxford, February 2017

[17] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

In parallel, two thematic initiatives are supported through blending: the Electrification Financing Initiative to promote access to energy and the Agriculture Financing Initiative to promote agricultural development.

***Figure 2*: geographical coverage of EU blending facilities**

Source: retrieved on line on 14th September 2017 at https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

To date, two regional facilities - the EU-Africa Infrastructure Trust Fund (EU-AITF) and the Neighborhood Investment Facility (NIF) – which account for almost 80% of the budget allocated to the blending facilities, have been audited[18]. The assessment was conducted by the European Court of Auditors in 2014. It was focused on processes (set-up of the facilities, quality of the project design and implementation system) as well as on the extent to which the intended benefits were achieved, focusing on the EU financial allocations and on the role of the European Commission. The sample of projects analyzed was selected among those receiving grants from the EU-AITF in 2012 and from the NIF in 2013. It concluded that blending facilities are generally valuable and effective instruments in supporting their respective objectives, but there is still room to increase the potential benefits achievement. In particular, project identification, relevance and design were considered positive. Both instruments achieved their goal of leveraging significant financial resources as well as of promoting partnerships and of increasing coordination and cooperation among finance institutions. However, project's approval process was assessed as scarcely transparent, also because of a lacking guidance on which criteria should be use in the decision-making process. Furthermore, it was pointed out that the monitoring system does not ensure that the added value of grant is achieved.

In December 2016, the Evaluation Unit of the Directorate-General for International Cooperation and Development of the European Commission (EC DG-DEVCO) commissioned an overall assessment of blending facilities more specifically focused on development results obtained through

[18] European Court of Auditor (2014), The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies. Luxembourg, Special Report no 16/2014

blending as an aid modality[19]. It covered the activities of the seven regional facilities between 2007 and 2014 and assessed on: the additionality of blending; the alignment of projects with EU country and regional strategies and policies as well as with national and regional priorities of beneficiary countries; the level of ownership for beneficiary countries; the policy leveraging and the EU visibility. The DG-DEVCO concluded that:

- blending allowed the EU to engage in lower medium and medium income countries, in sectors and projects which would have been otherwise difficult to reach through grants alone, but the engagement in lower income countries is still below its potential;
- blending has added significant value to the EU's grant based development cooperation as well as to the IFIs loan operations and in supporting private investors;
- blending projects are likely to achieve the intended results in most of the cases but, especially in the cases of early projects, the potential for poverty alleviation was not optimized.

4. Overview of the European "blending" facilities covering Africa and the Neighborhood countries

***Table 2*: overview of the European bending facilities for Africa**

FACILITY	NIF Neighborhood Investment Facility	EU-AITF EU-Africa Infrastructure Trust Fund	AfIF African Investment Facility	ElectriFI Electrification Financing Initiative	AgriFI Agriculture Financing Initiative
Launch year	2007	2007	2015	2015	2016
Region	North Africa, Middle East	Sub-Saharan Africa	Sub-Saharan Africa	Focus on sub-Saharan African countries	
Sectors	Energy Transport infrastructure Interconnection	Energy Water Transport and communication	Investments & job creation MSME	Energy	Agriculture Agri-business
Investments	Until 2015, allocated EUR 1˙431 million 112 projects financed Leverage effect 1:10	Until 2015, allocated EUR 698.4 million 83 projects financed Leverage effect 1:14	No programme established	EU allocation of EUR 116 million & US initiative Power Africa allocation of USD 10 million	EU allocation of EUR 2 billion for 2014-2020, estimated to leverage total investments of up to EUR 100 Kick start of the EC of EUR 200 million

[19] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

4.1 Regional Facilities

4.1.1 The Neighborhood Investment Facility

The NIF is aimed at supporting key investment infrastructure projects in the transport, energy, social and environment sectors as well as at fostering private sector development, with a particular focus on SMEs. The projects supported by NIF must fully contribute to the overall objective of the EU's Neighborhood Policy and the achievement of the ENP partner countries' national strategies. The NIF supports the implementation of regional and multilateral processes, in particular the Union for the Mediterranean, the Southern Mediterranean Investment Coordination Initiative, the Eastern Partnership and the Black Sea Synergy[20].

Launched in 2008, the main objectives for the period 2014-2020 are[21]:

- to establish better energy and transport infrastructure interconnection between the EU and the neighboring partner countries and between the neighboring countries themselves;
- improving energy efficiency, promote use of renewable energy sources and strengthening energy security;
- addressing the root causes of climate changes and mitigate risks;
- promoting equitable socio-economic development and employment creation, especially supporting SMEs and the social sector.

Until 2015, the European Commission allocated EUR 579.3 million in the East partner countries and EUR 852.3 million in the South partner countries, for a total of EUR 1˙431 million. Funds were delivered as investment grants in 53% of the cases, as technical assistance in 26% of the cases, as guarantees in 15% of the cases and as contribution to equity and fees in the remaining cases.

The financed projects are 112 (of which 102 have already been contracted), of which the 60% targeted to the South partners. The vast majority of these projects were granted to investments in the area of energy (36%), private sector development (25%), water and sanitation (15%) and transports (15%)[22].

About additional EUR 13.83 billion of lending have been provided by European Financial Institutions to projects. The European Commission estimates that its grants led to a financial leverage of almost EUR 9.7 of total lending for each euro provided by the NIF, which is a 10:1 share.

4.1.2 The African Investment Facility and EU-Africa Infrastructure Trust Fund

The AfIF was launched in 2015 under the European Development Fund blending framework and it is expected to gradually replace the EU-AITF established in 2007 by the EU, EU Member States and the European Investment Bank.

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[20] Source of information for this section is largely taken from "European Neighborhood Policy and Enlargement Negotiations – Neighborhood Investment Facility" https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/neighbourhood-wide/neighbourhood-investment-facility_en (site consulted on September 2017)

[21] Große-Puppendahl, S., Karaki, K., & Bilal, S. (2016). Investment promotion for sustainable development. Discussion paper No. 208, 2016

[22] European Union (2016), Neighborhood Investment Facility Operational Annual Report 2015. Luxembourg, 2015

The EU-AITF main objective is to facilitate interconnectivity and regional integration through regional and cross-border infrastructure projects in the energy, water, transport and communication and telecoms sectors. Financed projects must be financially sustainable and must demonstrate a development impact in terms of poverty reduction and economic development and trade, economic viability, sustainable operation and maintenance and African ownership. Indeed, projects must be identified according to the priorities set by the African Union and by one of the African regional or national bodies[23].

In the period 2007-2016, the EU-AITF provided support to 83 infrastructure projects in sub-Saharan Africa with a total of 111 grants allocated, reaching a total amount of more than EUR 698.4 million. Under the so-called "regional envelope" (EUR 485 million), until 2015, were allocated 17 grants, among which 8 were for regional projects, mainly in the transport sector. Under the so-called "Sustainable Energy for All (SE4ALL) Envelope" (EUR 330 million), until 2016, were allocated 253.4 million of grants supporting at least one of the mentioned objectives[24]. The SE4ALL envelope was introduced in 2013 to commit Europe in support of the UN's initiative by empowering leaders to broker partnerships and unlocking finance.

The UN's SE4ALL initiative aims to ensure universal access to modern energy services, double the global rate of improvement in energy efficiency and double the share of renewable energy in the global energy mix. In order to achieve Sustainable Energy Access for all Africans by 2030, the IEA estimates that an additional investment volume of USD 385 billion is needed. As African countries have substantial renewable energy resources, which are largely untapped, European businesses have significant investment opportunities. However, challenges remain. Lack of market information hinders the identification of opportunities and the establishment of business relations. High capital costs, as well as the complicated access to dedicated finance options, delay investments. Low skills and capacities as well as gaps in the regulatory framework represent market barriers. To date, with more than half approved operations in the energy sector and a strong pipeline of energy projects, the EU-AITF is well placed to overcome these market failures, to foster private sector investments and to assist countries in Sub-Saharan Africa with their adaptation and mitigation efforts.

Following the success in leveraging private investments registered by the EU-AITF (the European Commission estimates it in the range of 1:14), the AfIF[25] was conceived as a mechanism to further reinforce the EU blending effort, as it will support larger operations - also through co-financing with non-EU financial institution - and better ensure partner countries' ownership.

AfIF is a blending facility aimed at contributing to poverty reduction and social and economic development by promoting job creation and income generation through MSME's (in the formal and informal sector) and microfinance institutions support and investments in key infrastructures in energy, transport, agriculture, environment, water and sanitation, ICT, creative industries, social infrastructures (including in rural areas).

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[23] Source of information for this section is largely taken from: Hultquist, I. (2015). *Mapping of EU blending*. UTV Working Paper 2015:1

[24] European Investment Bank (2017), Annual Report EU-Africa Infrastructure Trust Fund 2016, 07/2017

[25] Source of information for this section is largely taken from the European 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 (2015)

To date, any program in the frame of the AfIF has been established.

4.2 Thematic windows

The energy sector and sustainable agriculture are among the EU priorities since 2011, when the EU Agenda for Change was defined to increase the impact of the EU Development Policy[26]. Its main objective is to insulate developing countries from shocks (such as environmental risks due to climate change, price volatilities, scarcity of resources and supply shortages) and to help providing the foundations for a sustainable growth. These sectors are supported also through two thematic blending initiatives: ElectriFi and AgriFI.

4.2.1 ElectriFI

ElectriFI[27] aims at stimulating private investments, at mobilizing financiers to electrify rural and underserved areas in developing and emerging countries, as well as at ensuring the access to reliable, affordable, sustainable and modern electricity and energy services for all. ElectriFI also seeks to encourage the adoption of renewable energy.

ElectriFI has a particular focus on sub-Saharan African countries, where two third of the African population lacks access to modern electricity, especially in rural areas, and almost four in five rely for cooking on solid biomass (fuelwood and charcoal). According to the IEA (International Energy Agency), the number of Africans lacking access to electricity is of about 600 million people and it is projected to increase to 645 million people by 2030, based on current trends and as a result of a growing middle class, of the urbanization and of the population growth rates. As a matter of fact, the continent's entire power generation capacity is of 90GW, half of which is located in South Africa. Excluding South Africa, consumption averages around 162 kWh per capita per year, compared to a global average on 7'000 kWh[28].

The focus on electrification is in line with the international effort to ensure the access to affordable, reliable, sustainable and modern energy for all by 2030, as set by the Sustainable Development Goals (SDG n. 7). ElectriFI was launched in 2015 as an EU initiative at the COP21 in Paris, when 195 nations negotiated a climate agreement to limit the global warming and recognized the energy sector as a focal contributor to climate change. The objective is twofold: on the one hand, to ensure the universal access to energy services and, on the other hand, to reduce the carbon intensity of energy by promoting the adoption of renewable energy.

As a financing scheme, ElectriFI provides risk capital seeking collaboration and additionality to other funders (through equity, quasi-equity, debt and development finance); it invests in companies with positive financial outlook and with the necessary skills and capacity; it leads to increased or improved end-user access to energy; it provides technical advisory support to clients. The main target actor is the private sector, but also the public sector may benefit under market based

[26] European Commission. 2011. Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. Increasing the impact of EU Development Policy: An Agenda for Change. COM/2011/0637 final.

[27] Information about ElectriFI are largely taken from Electrification Financing initiative – ElectriFI https://eeas.europa.eu/sites/eeas/files/electrifi_201702_0.pdf and from the ElectriFI web page http://electrifi.org/ (consulted on September 2017)

[28] Africa Progress Panel (2015). Power people planet: seizing Africa's energy and climate opportunities: Africa progress report 2015

conditions. Operations are assessed against a set of criteria including: aid effectiveness and coherence with country ownership principles, development impact (new or improved access to electricity and energy services, jobs creation etc.), additionality (meaning the need of the support requested), neutrality (meaning avoidance of market distortion), replicability and scaling-up potential and compliance with environmental, social and fiscal standards. Furthermore, investments having an important impact and added value in the following areas are prioritized: (i) improving the life of women and girls; (ii) productive uses of energy; (iii) provision of social services to the bottom of the pyramid (health, education, security, etc.); (iv) actions in the energy-water-food nexus; (v) clean mini-grids with a provision to be connected to the main grid in the future; (vi) green hybridization of existing systems; (vii) establishment of local mini-utilities; (viii) innovative solutions in terms of organization, financing or delivery of energy services.

ElectriFI is a joint initiative between the EC and the European DFIs. To date, it is implemented by the Dutch development bank, jointly with the Association of 15 European DFIs, through the newly established European DFI Management Company in Brussels which manages an amount of EUR 116 million. It is funded by the European Commission and by a contribution of USD 10 million from the US initiative Power Africa targeting the sub-Saharan African region. The initial timeframe is 10 years, but it could be prolonged if additional funding is secured.

A first call for proposal was launched in April 2016, a second one in February 2017 and a third one is expected towards the end of 2017. Investments to support renewable energy may have a total budget of above EUR 500˙000, with a total amount contributed by ElectriFI that will not exceed EUR 10 million per project.

To date, financed projects in Africa are[29]: the Utility – Solar PV in Nigeria; the IPP-Solar PV in Benin; the Regional-Solar Home System in Kenya; the IPP – Hydro in Ruanda; the NextGen and Utility-Solar PV in Tanzania.

4.2.2 AgriFI

AgriFI is aimed at increasing investment in smallholder agriculture and MSMEs' agribusiness in order to achieve inclusive and sustainable agricultural growth[30].

The objective is in line with the SDGs number 2, which aims at ending hunger, achieving food security and improving nutrition, and promoting sustainable agriculture by empowering farmers' cooperatives and small-scale food producers.

It is also in line with the EU's top development priorities for 2015-2020. The EU Agenda for Change[31], in fact, identifies sustainable agriculture as a key driver to eradicate poverty and boost the economic development.

[29] Information released from the ElectriFI website (http://electrifi.org/where-we-work/discover-our-projects/) the 15th September 2017

[30] International Organization of Employers. Agricultural Financing Initiative – Concept note. www.ioe-emp.org/.../_2015-07-01__AgriFI_Concept_Note.pdf (downloaded the 20th September 2017)

[31] European Commission. 2011. Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions. Increasing the impact of EU Development Policy: An Agenda for Change. COM/2011/0637 final

AgriFI fits also well with the African agricultural agenda that, in 2014, through the Malabo Declaration, highlighted the need to enhance investments in agriculture by supporting systems for facilitation of private investments in agriculture, agri-business and agro-industries.

The FAO estimates that EUR 240 billion per year are needed to eradicate hunger by 2030. Global food security depends upon the modernization of sub-Saharan Africa agriculture. Africa's booming population and economic growth are set to drive demand for food and consumer goods in the continent.

To date, 75% of the poor live in rural areas where risks in agricultural production are high because of vulnerable environmental conditions, volatility of prices and of the quantity and quality of production. Small producers, which account for more than 95% of all agricultural holdings, in particular, are characterized by a limited technological and innovative capacities, limited access to financial services and credit markets that raise the cost of doing business in small rural markets.

AgriFI aims to provide risk capital, guarantees and other risk-sharing mechanisms adapted to farmers and agri-entrepreneurs, particularly smallholders and agribusiness MSMEs, in order to crowd in private sector funding for agriculture. Moreover, it aims to promote business development through the provision of advisory services and the design of appropriate monitoring frameworks based on value chain analysis for better accountability and decision making.

To this aim, the EU will allocate over EUR 2 billion for 2014-2020, that are estimated to leverage total investments of up to EUR 100 billion from additional public and private sources.

The initiative was launched in 2016 and, as a kick-start, the European Commission allocated EUR 200 million.

5. The role of the European Development Finance Institutions: a focus on France and Italy

As seen in the previous section, the concept of blending grants and loans is not new, having a long tradition in bilateral and multilateral banks' cooperation.

Development Finance Institutions (DFIs) play an important role in blending initiatives. They are responsible to identify projects and apply for grants, which are approved by executive bodies comprising the European Commission, Member States and other donors. Furthermore, DIFs can help financing these initiatives by borrowing from financial markets at lower rates than granted to private investors so that additional resources are mobilized; by co-financing, providing risk guarantees and other instruments to mobilize private capital for specific projects; by providing technical assistance and by sharing best practices to improve the quality of projects as well as their sustainability and their accountability to a wider public interest[32].

To date, leading DFIs engaged in blending include the European Investment Bank, the European Commission, the French Development Agency (AFD), the German development bank (KfW) and the European Bank for Reconstruction and Development (EBRD).

[32] United Nations (2017). Financing for Development: progress and prospects – 2017 Report. New York, 2017

In Europe, the development policy "Agenda for Change" adopted in 2011 gave the mandate to the European financial institution to help reinforce a public-private partnership and to attract private investments in key sectors of development. Among these institutions, the French AFD and the German KfW have the longest histories of presence in development cooperation systems, while the Spanish Agencia Española de Cooperación Internacional para el Desarrollo and the youngest Italian Cassa Depositi e Prestiti are new entries. The CDP became entitled to play the role as the Italian Financial Institution for Development Cooperation in 2015.

Since May 2016, these institutions are acting under an agreement of cooperation, coordination and dialogue to foster and implement a new international framework which aims to incorporate the guidelines adopted within the United Nations in New York, Paris and Addis Ababa for a sustainable socio-economic development, migration and climate action, gender equality and political stability.

The EU DFIs are therefore becoming more active partners in blending development grants and loans. Despite its informal nature, this framework may be an opportunity to harmonize blending definitions, practices, principles and modalities among the European financing institutions.

This section focuses on the experiences of the French and Italian cooperation system in implementing blending initiatives. In France, the AFD is a leading actor in blending finance, while in Italy, since the reform of 2014, there is an innovating and renewed development aid system.

Thanks to a memorandum of understanding signed in March 2017, the two institutions agreed to work together to develop and strengthen their collaboration in promoting sustainable economic development and combating climate change. Moreover, they aim to foster a joint and coordinated presence in all sectors and geographical areas of intervention[33].

This section also provides a mapping of investment programs leaded by the French or Italian financiers and launched through blending facilities.

5.1 The French Development Agency (AFD)

The French cooperation system is leading the European action plan for development: France is the second largest donor after the United States and Europe's largest donor in absolute terms, followed closely by Germany and the United Kingdom. As a percentage of GNI, France's ODA reached the 0.47% in 2009[34].

The main objective of the French cooperation system is to contribute to a shared and sustainable economic growth, the eradication of poverty and the reduction of inequality in the poorest regions and countries, the preservation of the global public goods, the stabilization of fragile or post-conflict countries by promoting the rule of law as factor of development[35].

The geographical areas of interventions are concentrated in two priority regions - sub-Saharan Africa and the Mediterranean Basin - within which countries are classified as crisis-affected countries (in the Sahel, Middle East and Afghanistan) and emerging countries. Sub-Saharan Africa

[33] http://en.cdp.it/Projects/All-Projects/International-Cooperation-CDP-FranceS-AfD-Agree-To-Cooperate-In-International-Development.kl and http://www.afd.fr/lang/en/home/presse-afd/communiques?actuCtnId=141554

[34] OECD-DAC data

[35] Ministry of Foreign and European Affairs (2011). Development Cooperation: a French Vision. Framework document, 2011

is a priority because of its geographic, cultural and linguistic proximity and the magnitude of the issues common to the region as a whole. The French cooperation intervenes there mostly through bi- and multilateral instruments and grant funding focused on fourteen priority poor countries, mainly from the group of Least Developed Countries. The Mediterranean Basin is a priority because of migration inflows towards Europe. The French public financial support for this region comes primarily in the form of loans, supplemented by cultural, scientific and technical exchanges.

The two priority regions receive the 60% of the French Government's financial efforts. Resources are mobilized mainly for agriculture and food security, support for infrastructure – particularly renewable energy and transport –, sustainable urban development and targeted actions for education and health. In the Mediterranean, since most of the countries are middle-income, aid to development is mostly addressed to support job creation by promoting an effective institutional environment, by developing the SME sector and by reducing social and territorial inequalities[36].

The French cooperation system is taking action in new fields, particularly in Africa, and has the objective to increase its activity by 60% by 2020 (that is EUR 23 billion in 5 years, from 2017 to 2021). In 2016, 84% of grants and subsidized loans were concentrated in Africa, mainly in the clean energy, transportation and sustainable agriculture and food security sectors. In 2016, more loans for the private sector (+8%) and more grants in delegation of funds, especially from the EU (+300%) were allocated[37].

The allocation of funds is realized through the AFD, the operator for France's bilateral development finance mechanism. It is a public industrial and commercial institution with the status of specialized financial institution. Its action is in line with the policy set out in the France's Framework Document for Development Cooperation, a three-year contract specifying objectives and resources between the French government and the AFD.

AFD Group comprises a private sector financing arm, Proparco (Société de Promotion et de Participation pour la Coopération Économique), of which the AFD holds the 57%. Proparco was founded forty years ago on the conviction that the private sector is a key player in development. The AFD and Proparco are therefore leading the PPPs for development: these organizations aim to provide expertise and appropriate financial resource in order to make investments attractive in sectors where there is little or poor coverage.

To date, Proparco is responsible for financing and supporting projects led by companies and financial institutions in developing and emerging countries, from SMEs to regional banking groups, including microfinance institutions. To this aim, it provides investment funds that, then, finance microenterprises and start ups in key development sectors such as infrastructure, health and agro-industry.

Proparco – in line with the French cooperation system's objectives - has made of Africa its priority and is to date the most African oriented DFI: in the last decade, Proparco commitment in Africa has more than doubled and, since 2012, it has accounted for almost 50% of Proparco annual activity (with a portfolio of EUR 1.5 billion). Until 2020, Proparco aims to double its annual commitment

[36] Agence Française de Développement (2012). Strategic orientation plan 2012 – 2016. Paris, 2012

[37] Information and data from the Agence Française de Développement : http://www.afd.fr/webdav/site/afd/shared/PRESSE/communiques/results-2016-EN.pdf (consulted on September 2017)

from EUR 1.05 billion in 2015 to EUR 2 billion[38] and to mobilize a minimum of EUR 3.7 billion of investments in Sub-Saharan Africa. This is in line with the commitment of EUR 23 billion for Africa over a 5-year period, made by the French President, on behalf of AFD Group, during the Elysée Summit for Peace and Security in Africa (December 2013).

Mediterranean and Middle Eastern countries are Proparco second largest region of operation. In this region, it focuses its financing on strengthening local productive bases and creating employment, especially for youth.

5.2 Opportunities for the renewed Italian development aid

The Italian cooperation system is prioritizing towards Africa and towards the theme of employment opportunities by promoting the development of local entrepreneurship and infrastructure investments, with a particular focus on MSMes, on cooperative development, on the social economy and on access to credit.

Because of growing migratory inflows, Italy contributed to establish the EU Emergency Trust Fund to address the root causes of migration in Africa (launched at the Valletta Summit of November 2015). Moreover, in 2016, it promoted the "Migration Compact", an agreement for the management and reduction of the growing migratory inflows towards Europe, from the Middle East, North Africa, Sahel and Horn of Africa.

The programmatic document 2016-2018 for the Italian cooperation system[39] identifies thematic and sector priorities for the humanitarian aid in fragile contexts such as the ones of Syria, Sudan, South Sudan, Sahel, Horn of Africa, Palestine and RCA. Humanitarian aid includes interventions in the sectors of agriculture, food security, education, health, governance and inequality reduction.

Other main objectives are linked to poverty eradication, the economic development and the climate change mitigation policies. Interventions are mainly targeted to 22 focus countries, among which nine are in sub-Saharan Africa (Burkina Faso, Ethiopia, Kenya, Mozambique, Niger, Senegal, Somalia, Sudan and South Sudan) and seven in the Mediterranean area and Middle East (Egypt, Tunisia, Jordan, Lebanon, Palestine, Albany and Bosnia).

Of particular interest are the interventions in West Africa, where the Italian cooperation promotes agricultural and rural development, combats desertification, and sustains the health sector development as well as the entrepreneurship development with a stronger involvement of diasporas and migrant groups. The four focus countries are Burkina Faso, Niger, Mali and Senegal, characterized by high poverty rates, low human development standards and fragile governances. In this region, there is one of the first operative examples of blending with European funds: the program PAMIRTA in Niger (see below).

Generally speaking, it is possible to register a progressive regionalization of the Italian aid for development towards sub-Saharan Africa and, in particular, in the direction of the agriculture sector, the rural development and the fight against food insecurity. According to Oxfam, in 2015,

[38] Proparco (2017). Proparco's Strategy 2017-2020, Dossier de presse, Janvier 2017

[39] Cooperazione Internazionale per lo Sviluppo (2016), Documento Triennale di Programmazione e di Indirizzo 2016-2018

Italy destined 3.6% of ODA at supporting the agricultural sector and rural development with an increase of 11% compared with the previous year[40].

In order to effectively address the cooperation objectives and re-launch the role of Italy in the international cooperation system, the Italian system predicts:

i) to provide more resources to the development cooperation system, aligning Italy to the other EU partners standards of development aid both in terms of quantity (as measured by the relationship ODA/GNI) and quality;
ii) to renovate the Italian cooperation system, harmonizing - at a regulatory level - the Italian system with those of other European partners;
iii) to recognize the private sector as an actor of development cooperation.

With reference to the first point, Italy has been far from reaching the 0.7% of GNI allocated to ODA. Since 2013, the Italian government has increased the ODA level and committed to steadily raise the ODA/GNI ratio to reach 0.28/0.31% in 2017. The programmatic document 2016-2018 seeks a gradual increase of resources for development cooperation over the three-year period: EUR 120 million in 2016 (about 40% more), EUR 240 million in 2017 and EUR 360 million in 2018[41].

With reference to the second point, the scenario of the Italian development cooperation was updated and evolved with the ratification of the Law No. 125/2014 "*General regulation on international development cooperation*", that reforms the previous legislative framework of the Law No. 49/1987.

The new legislation objectives are: to simplify and reorganize the entities, instruments, means of interventions and guidelines for the cooperation system and to adapt to the prevailing models in use in EU partner countries, such as the French AFD and the German KfW.

To this aim, the Law sets up the Italian Development Cooperation Agency (AICS) as the autonomous operating arm of the Italian Ministry for Foreign Affairs and Cooperation (MAECI). The Agency is responsible for the policies implementation on the basis of criteria of effectiveness, efficiency and transparency. It has an independent legal personality, a budget and an own organization with a decision-making and spending autonomy up to a maximum of EUR 2 million. The AICS is also called upon to promote forms of partnerships with the private sector for the realization of specific initiatives.

The Law also identifies in the Cassa Depositi e Prestiti the role of technical and financial support to the MAECI and the AICS, while previously the cooperation resources were fragmented among a number of ministries. The CDP is a joint-stock company under public control (the Italian government holds 80.1%) and it is expected to operate as a bank or financial institution to manage the financial tools (soft loans, blending facilities, new financial instruments...) necessary to implement development cooperation programs. In particular, it does so through the SIMEST (a company controlled by the CDP and by SACE, member of the European DFI) that provides soft loans for internationalization, export credit support and equity investments to promote the international development of Italian businesses. The CDP can:

[40] Oxfam International (2017), Sviluppo: un affare privato?, Briefing Paper, Aprile 2017

[41] Data from OECD-DAC

- sign agreements with the governments of developing countries, overseeing the management of aid financing;
- manage Italian, European and international funds, or funds connected to EU programs, also involving the private sector through mechanisms of integration of financial resources such as blending and matching (the CDP is eligible to manage European Funds thanks to the positive evaluation by the EU in the process for the 7 Pillar Assessment);
- intervene on its own initiative with own resources associated to Italian public funds (concessional funds paid by the DGCS), including public/private blending.

The CDP hence represents a financial point of reference for the Italian cooperation system, but also serves as an advisor and technical assistance provider for the AICS and the MAECI. Indeed, the CDP aims to provide the expertise to participate to European and international calls for proposals as well as to directly finance projects of public interest. Since 2009, the CDP is thus engaged in the implementation of projects designated to generate value for the local communities (e.g. social housing), the development of the territory, the growth and expansion of Italian enterprises.

With reference to the third point, the Law No. 125/2014 promotes the involvement of private actors, especially the for-profit private sector, as an additional funder for development initiatives. As a matter of fact, the Law explicitly makes a reference to for-profit entities as actors of the Italian cooperation system (art. 23). Moreover, the Law offers a clear framework for the involvement of the private sector in development initiatives. The art. 8, in particular, provides for the possibility for the private sector to co-finance - with the IFIs and through blending mechanisms with European funds - development initiatives.

In this frame, the CDP has the ambition to combine the typical set of products of IFIs, such as the World Bank and the European Investment Bank, with those of the DFIs. As a public fund manager for development cooperation, the CDP offers to act as an interlocutor able to manage with transparency, competence and diligence the resources of third parties, national or international, for development cooperation initiatives.

5.3 Mapping the French and Italian blending operations

The AFD, through its private sector financing arm Proparco, is one of the leading donors in blending finance. Indeed, the AFD greatly takes part to a dynamic of cooperation and coordination between donor agencies, co-financing and blending for development projects. In contrast, the Italian cooperation system has only recently indentified in the CDP its operative financial arm.

In this section, the effort is to map the development projects financed by the AFD and the CDP in the frame of blending facilities since the launch of blending mechanisms. The aim is to:

- give an idea of the degree of the use of European blending facilities in financing development projects;
- identify what kind of projects are financed through blending, in which regions and in which sectors;
- estimate the amount of resources allocated and the instruments towards which these resources are given.

The following information is taken from the European blending facilities reports and from the EU portal on blending operations[42]. The focus is on those projects for which the AFD or the CDP have a leading role, while those in which they have a minor co-financing role are excluded.

***Table3*: the AFD as leading financier in blending operations**

Project	Region	Sector	Facility	Total facility contribution managed by AFD (EUR)	Total project budget (EUR)	State of progress as at December 2015
Access to Douala	Central Africa	Transport	EU-AITF	IRS , 5.7 mln	65.7 mln	Approved in 2010, ongoing
Access to electricity in the Atlantique Province in Benin	West Africa	Energy	EU-AITF	IG, 20 mln	53 mln	Approved in 2013, ongoing
Rehabilitation of the Great East Road	East Africa	Transport	EU-AITF	IRS, 13.7 mln	262,6 mln	Approved in 2010, ongoing
Restructuring of Cargo Handling Corporation Ltd. (CHCL) (Mauritius)	East Africa	Transport	EU-AITF	TA, 1.2 mln	43,3 mln	Approved in 2014, ongoing
Sambangalou Hydro Power Plant	West Africa	Energy	EU-AITF	TA, 290.000	350'000	Approved in 2009, completed
Port de Pointe Noire (Congo-Brazzaville)	Central Africa	Transport	EU-AITF	IRS, 6.6 mln TA, 2 mln	133.6 mln	Approved in 2009, IRS completed and TA ongoing
Ecowas Electricity Regulation	West Africa	Energy	EU-AITF	TA, 1.7 mln	8.39 mln	Approved in 2009, completed
Environmental Credit Lines for Kenya, Uganda and Tanzania – Engaging banks in Energy Transition Projects	East Africa	Energy	EU-AITF	TA, 2 mln TA, 2.1 mln	80 mln	Approved in 2010, ongoing Approved in 2013, ongoing
Extension of NIGELEC Networks	West Africa	Energy	EU-AITF	IG, 11 mln	41 mln	Approved in 2013, ongoing
Feasibility study for the Western part of Umojanet	West Africa	Energy	EU-AITF	TA, 1.1 mln	1.35 mln	Approved in 2010, completed
Financing EE and RE investments of private companies in West Africa	West Africa	Energy	EU-AITF	IG, 4.5 mln TA, 1.5 mln		Approved in 2013, ongoing
Green Energy Finance for Indian Ocean Region (GEFIOR)	East Africa	Energy	EU-AITF	TA, 1.7 mln	80,3 mln	Approved in 2013, ongoing

[42] European Investment Bank (2015). EU-Africa Infrastructure Trust Fund Annual Report, 2015. Luxembourg, 06/2016
European Union (2015), Neighborhood Investment Facility Operational Annual Report 2014. Belgium, 2015
Other information released the 15th September 2017 on the website: https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

Improvement and extension of Conakry's Distribution Network (Guinea)	West Africa	Energy	EU-AITF	IG, 17 mln TA, 3 mln	50 mln	Approved in December 2015
Interconnection Bolgatanga-Ouagadougou	West Africa	Energy	EU-AITF	IRS, 2.8 mln TA, 4.8 mln	81.1 mln	Approved in 2011 ongoing
Support for Geothermal Development in Tendaho (Ethiopia)	East Africa	Energy	EU-AITF	IG, 3 mln TA, 4.5 mln	36.1 mln	Approved in December 2015
LV WATSAN - Kisumu Water	East Africa	Energy	EU-AITF	TA, 5 mln + TA, 1.5 mln	55 mln	Approved in 2014, ongoing + Approved in 2012, ongoing
Solar Hybridization to increase national electrification – SHINE	West Africa	Energy	EU-AITF	IG , 14.4 mln TA, 3.6 mln	41 mln	Approved in December 2015, ongoing
Support for Geothermal Development in Tendaho (Ethiopia)	East Africa	Energy	EU-AITF	IG, 3 mln TA, 4.5 mln	36,1 mln	Approved in 2014, ongoing
WAPP Power Interconnection in West Africa (Ghana-Burkina Faso-Mali)	West Africa	Energy	EU-AITF	TA, 1.2 mln	146.2 mln	Approved in 2011, ongoing
Maputo International Airport	Southern Africa and Indian Ocean	Transport	EU-AITF	TA, 1.6 mln	57.6 mln	Approved in 2011, ongoing
Masaka-Mbarara 220 kV Transmission Line	East Africa	Energy	EU-AITF	TA, 0.8 mln	51.6 mln	Approved in 2012, ongoing
Mauritius Container Terminal Extension	East Africa	Transport	EU-AITF	DG, 3 mln	93.7 mln	Approved in 2012, ongoing
Uganda Rural electrification Project	East Africa	Energy	EU-AITF	IG, 7.1 mln TA, 1.2 mln	55.5 mln	Approved in 2014, ongoing
Cairo Metro Line Phase 3	Egypt	Transport	NIF	TA, 3 mln	2,075 billion	Approved in 2011, ongoing
Creation of training institutes for training in professions relating to renewable energies and energy efficiency	Morocco	Energy	NIF	10 mln	26 mln	Approved in 2014, ongoing
Ecocity in Zenata	Morocco	Social sector	NIF	150 mln loan, 0.3 mln grant	560 mln	Approved in 2014, ongoing

Notes: IRS: interest rate subsidy; IG: investment grant; DG: direct grant; TA: technical assistance

Sources: see footnote 42

In 2017, AFD and Proparco launched the African Renewable Energy Scale Up Facility (ARE Scale Up) to stimulate private investment in the renewable energy sub-sector in Africa[43]. AFD then became one of the first DFIs to use the new EU blending facilities thematic windows. The AFD's initiative is an extension of the ElectriFI initiative of the EU, which pursues the same objective but with a more specific focus on rural and remote areas.

ARE Scale Up receives EUR 24 million from the EU, through which the agency will support innovative upstream projects in the field of electrification, with particular attention to solar energy. This support will take the form of: i) a technical assistance facility (EUR 12 million) to strengthen the regulatory, legal and institutional environment of beneficiary countries and prepare private or public renewable energy project funding in Africa; ii) a guarantee facility (EUR 12 million) to fund equity investments in private companies that specialize in off-grid technologies.

The medium-term objective of the initiative is to enable access to energy to one million African households over the next five years and increase by 50 MW the continent's energy capacity from renewable energy sources. The long-term objective, within the framework of the climate negotiation process, is to improve access to energy for all and financing 10 GW of renewable energy generating capacity on the African Continent by 2020.

The Italian cooperation system has less examples of blending operations leaded by the CDP, as its eligibility to manage EU funds is recent.

One of the examples of blending operations often reported in the Italian cooperation documents is the "PAMIRTA – Progetto di accesso ai mercati e d'infrastrutture rurali nella regione di Tahoua" project in Niger. It has been launched in 2013 by the Italian Cooperation (MAE-DGCS). The objective is to raise the income of the populations living in the region by improving the access to the markets and the agricultural inputs for producers of agro-pastoral basins, the reorganization and support of marketing outlets. The project concerns the majority of the Tahoua Region, in total 1˙270˙000 inhabitants (7,5% of country population, estimated at 16˙600˙000 people), mainly rural people that live in one of the poorest areas of the country. Direct beneficiaries will be the rural populations, the communities, and associations of farmers or shepherds of the areas concerned by project, for an estimated total of 448˙000 people. The initiative provides loans for EUR 20 million and grants for EUR 795˙000. Even if mentioned in the programmatic document of the Italian Cooperation 2016-2018, to date, the PAMIRTA project does not seem to be operative as the funds have not been released[44].

Another Italian blending operation for which the CDP/SIMEST is the lead financier concerns the rural roads infrastructure development for the improvement of the connectivity and logistics of regional transport corridors in Niger and Nigeria (project "2RID"). It was approved in 2015 under the EU-AITF blending facility which provides EUR 4.6 million through technical assistance[45].

[43] Information about the ARE Scale Up is taken by the Proparco web page "Renewable energy in Africa: €24 million to develop innovative projects and boost electrification on the African Continent", http://www.proparco.fr/lang/en/Accueil_PROPARCO/Actus-Events-Proparco/News_PROPARCO?actuCtnId=141660, 20/3/2017

[44] Information retrieved online the 21st September 2017 from http://openaid.aics.gov.it/en/projects/initiative/010071/ website.

[45] European Investment Bank (2015), EU-Africa Infrastructure Trust Fund Annual Report, 2015. Luxembourg, 06/2016

6. Blending facilities: a SWOT analysis

As stated during the last DAC Meeting (March 2017) on Blended Finance[46], "*the increasing prominence of Blended Finance contrasts, however, with a still limited body of evidence, analysis and good practice in this area, as well as increasing concerns from a range of stakeholders about the risks of engaging in commercial transactions with the private sector*".

To date, the available evidence comes from the 2014's Court of Auditors assessment of the regional investment facilities since their launch[47] and from the overall independent assessment of blending as an aid modality commissioned by the European Commission to the DG-DEVCO in December 2016[48] (see *Section 3.3*, page 13 for more details).

The Overseas Development Institute, the ECDPM, Oxfam and other think-tanks released other reviews and assessments, in which, among other things, they pointed to the need of providing more information and evidence about blending operations and development results.

This section reviews the available evidence and the discussion around the elements of strengths and weaknesses, opportunities and threats of blended finance as a tool for development cooperation. A SWOT analysis table synthesizes the findings of every major argument.

6.1 Leverage effect and the principle of additionality

Blending facilities have been welcomed for their potential to leverage private resources that are additional to public funds and are aimed at reaching development objectives. In a time of budget constraints to development aid, private resources are seen as necessary to get from "*billions to trillions*" in finance for development.

Leveraging refers to "*the process by which private sector capital is mobilized as a consequence of the use of public sector finance and financial instruments*"[49]. Public resources are expected to inject economic efficiency in the presence of market failures and to create new markets by attracting investors in countries and sectors where otherwise they would not invest[50].

According to the 2016's assessment commissioned by the EC's DG DEVCO, blending allowed the EU to engage more broadly in countries and sectors which would have been mostly out of reach with grants alone. Indeed, the EU grants leveraged investments with an average ratio of 1:20, with

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[46] OECD (2017), Blended Finance for sustainable development: moving the agenda forward. DAC Meeting, 09 March 2017

[47] European Court of Auditor (2014), The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies. Luxembourg, Special Report no 16/2014

[48] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

[49] Brown, J. and Jacobs, M. (2011), Leveraging private investment: the role of public sector climate finance. Overseas Development Institute, April 2011

[50] Carter, P. (2015), Why subsidise the private sector? What donors are trying to achieve, and what success looks like. ODI Report, November 2015

additional funds coming principally from key European financial institutions in the form of loans but also from multilateral lending agencies and other public and private investors[51].

To date, existing surveys on private sector instruments show that their use is concentrated in middle and lower-middle-income countries. Low-income countries that received private capital investment through blended finance between 2012 and 2014 each received, on average, USD 60 million of this type of finance; the equivalent figures for middle-income countries were USD 352 million for lower-middle-income countries and USD 404 million for upper-middle-income countries[52].

The sectors concerned are typically the energy, transport and environment sectors, including water and sanitation. According to the 2016's evaluation of blending commissioned by the EC's DG DEVCO, "*the EU would not have had the resources to finance the scale of infrastructure that it was able to with blending since these projects would have absorbed a disproportionate share of the EU development assistance*". Furthermore, "*blending was often used in situations where a loan-only option was not feasible*"[53]. In this sense, the concept of "additionality" is crucial.

Additionality is a fuzzy concept, which is thus difficult to assess[54]. It has a financial component, but also an operational, institutional and systemic one ("development additionality").

The financial additionality ensures that the project gets finance from the public sector, necessary to be implemented. In the concept of financial additionality resides the leveraging effect of public resources. The question is whether donors are able to mitigate the private sector investments risks without conferring it an excess of profit. In other words, are donors leveraging resources for projects that will yield economic, social and development returns higher than costs? Moreover, concerns rise about the threat that blending mechanisms are used to privatize public services.

The operational and institutional additionality refers to the fact that public finance may also improve the quality of the investment from a technical, social, environmental, innovative or of governance standards point of view.

The systemic additionality refers to the fact that blending mechanism may transmit a positive signal to the market and may overcome biased perception (asymmetric information), for example, related to the levels of risks of investment.

The UK Aid Network (2015)[55] reviewed the available evidence on additionality of using ODA to leverage private investments (then not specifically focusing on blending mechanisms) and found only 17 documents that assessed financial additionality and only 13 that also considered the development additionality.

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[51] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

[52] Development Initiatives (2016). Blended Finance: understanding its potential for Agenda 2030. Bristol, November 2016

[53] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

[54] Bilal, S., Grosse-Puppendahl, S. (2016), Blending 2.0 – Towards new (European Extern) Investment Plans. ECDPM Discussion Paper No. 207, December 2016

[55] Pereira, J. (2015), Leveraging Aid: A Literature Review on the additionality of using ODA. 2015

Moreover, according to a EURODAD's report[56], "*there is no reliable evidence to show that blending mechanisms meet development objectives*" (development additionality). The issue is further investigated in the next paragraph.

LEVERAGE EFFECT AND THE PRINCIPLE OF ADDITIONALITY	
STRENGTHS	**WEAKNESSES**
Blending mechanisms facilitate the leverage of additional funds from the private sector from EU grants with an average ratio of 1:20	Investments in low-income countries and in non-capital-intensive sectors are still below their potential
OPPORTUNITIES	**THREATS**
To close the development financing gap by aligning blending operations with development objectives	To differentiate in favor of middle-income countries against low-income countries
To attract investors in countries and sectors where otherwise the private sector would not invest	To confer an excess of profit to private investors
To inject economic efficiency in the presence of market failures and to create new markets	To privatize public services, crowding-out public investments
To improve the quality of the investment from a technical, social, environmental, innovative or of governance standards point of view	To sustain costs for blending facilities higher than the economic, social and development returns

6.2 Development impact assessment: aid effectiveness

Blending operations are expected to add value to the EU's traditional development assistance based on grant aids as well as, on the other hand, to be more efficient than other operations purely based on loans.

According to the Court of Auditor's evaluation of the regional blending facilities, the EC monitoring performances have been limited and unstructured so far, as they were based on a Results Oriented Monitoring and were not specifically focused on the grants' added value. As a consequence, there is no convincing evidence that awarding grants were necessary to enable a loan to be contracted[57].

The question is whether there is any risk that financial incentives offered to private investors through blending facilities override development objectives. As a matter of fact, the European DFIs leading blending operations will look at the economic/financial risk of investments, refusing those beneficiaries bearing a risk too high for the financial institution itself. Private finance is likely to flow towards the more suitable and profitable sectors and, for the same financial incentives, towards the less risky countries. As a consequence, some development priorities might be bypassed[58].

During the period 2007-2014, 63% of the blending operations was directed to infrastructure related sectors and 17% focused on energy efficiency and renewable energy, while only 12% of blending

[56] Romero, M. J. (2013) "A dangerous blend? The EU's agenda to 'blend'public development finance with private finance." *Eurodad: Brussels 2013*

[57] European Court of Auditor (2014), The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies. Luxembourg, Special Report no 16/2014

[58] On this point, see also Oxfam International (2017), Private-Finance Blending for Development – Risks and opportunities. Oxfam Briefing Paper, February 2017

projects covered sectors such as education and health[59]. The health and education sectors are particularly at risk to be bypassed, being those sectors traditionally managed by the public sector. Large infrastructure projects have the potential to contribute to economic growth[60], but do not always contribute to poverty reduction objectives and can produce negative externalities on local communities and the environment.

For example, in the case of the recent reform of the Italian cooperation system, according to Oxfam, the Law No. 125/2014 does not introduce any operational framework to ensure that the involvement of the private sector in the international cooperation will add some benefits in terms of poverty reduction and will not cause social and environmental damages[61].

On the contrary, public resource allocation should be a transparent process, including the monitoring of how resources are spent, how much profit have generated, how much taxes have been paid in the recipient country. To this aim, a result measurement framework assessing the social and environmental impact generated should be implemented.

An effective public monitoring and impact evaluation mechanisms would allow to collect and analyze comprehensive data and information on the efforts of various actors using blended finance. As a consequence, it would be easier to assess whether the blending operations may have the potential to achieve development objectives and an impact on poverty-reducing sectors such as health and education. Moreover, a public monitoring and evaluation mechanism would be helpful for the private sector, traditionally less used to indicators that measure the impact of their intervention, also considering unintentional and indirect effects. Moreover, to demand private investors to align with those standards would be not different to what, to date, is demanded to the not-for-profit sector operating in developing countries through public resources[62].

With reference to this point, it is worth signal a platform set by the United Nations – the UN Social Impact Fund – to align private investments with the achievement of the SDGs and to create partnerships between UN agencies and impact investors. The initiative provides mentoring and strategic advisory to maximize the social impact of investments and facilitates co-investments in blended financed projects for socially responsible businesses, especially SMSs.

Another interesting initiative is the one of the IATI (International Aid Transparency Initiative)[63], a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid, development, and humanitarian resources in order to increase their effectiveness in tackling poverty. It provides a framework to publish data on development cooperation activities, which is intended to be used by all organizations in development, including government donors, private sector organizations, and national and international NGOs. To date, over 500 organizations, among which the AFD and the AICS, publish data in the frame of this initiative.

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[59] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

[60] On this point see World Bank Group (2011), Transformation through infrastructure, Infrastructure Strategy Update FY2012-2015, Washington, 2011

[61] Oxfam International (2017), Sviluppo: un affare privato?, Briefing Paper, Aprile 2017

[62] Oxfam International (2017), Sviluppo: un affare privato?, Briefing Paper, Aprile 2017

[63] http://www.aidtransparency.net/about

DEVELOPMENT IMPACT ASSESSMENT: AID EFFECTIVENESS	
STRENGTHS	**WEAKNESSES**
When of large scale and multiregional, projects directed to infrastructure related sectors, energy efficiency and renewable energy have a regional relevance	Only a minority of projects are focused on sectors traditionally managed by the public sector, such as education and health
OPPORTUNITIES	**THREATS**
To add value to the EU's traditional development cooperation based on grant aids To be more efficient than other operations purely based on loans To align with the IATI (International Aid Transparency Initiative) framework to improve the transparency of aid, development, and humanitarian resources in order to increase their effectiveness in tackling poverty	To override development objectives because of the trade-off between financial incentives and development objectives To produce negative externalities on local communities and on the environment

6.3 Transparency and accountability

To align blending operations with development objectives is critical. To this aim, transparency becomes a key element. One of the concerns related to blended finance is indeed that the growing attention given to the private sector in the development agenda may incentivize donors in reducing traditional ODA.

In a recent briefing paper, Oxfam[64] recalls that one euro of ODA spent to leverage private investments cannot be spent a second time to finance traditional international cooperation activities: if it costs as much to catalyze private finance as it would to provide the equivalent public finance, leveraging private funds does not help closing the development financing gap and, on the contrary, crowd out public investments. As a consequence, it is important to highlight (through clearer theory of change formulations, and quantifying potential impacts) what would be the added value of a blending operation and to what extent it is aligned with the beneficiary countries needs.

To avoid the ODA reduction by donor countries, the OECD is developing a framework for a new measurement system for development finance. In the current proposal, the public official effort for development will be recorded as ODA, while the officially-supported resource flows and the private finance mobilized through private sector instruments would be recorded in a broader measure called Total Official Support for Sustainable Development (TOSSD). This new international statistical measure should enable the international community to better monitor resources allocated for supporting the SDGs achievement, distinguishing between the official development finance and the non-development finance with a potential development impact[65].

To track financial flows for development is crucial for transparency.

[64] Oxfam International (2017), Sviluppo: un affare privato?, Briefing Paper, Aprile 2017

[65] Information released the 2nd October 2017 on http://www.oecd.org/dac/financing-sustainable-development/tossd.htm

On the European Commission International Cooperation and Development web-site[66], a platform provides basic information, but consistent, on the 380 blending projects financed by the EU grants. Researches can be made by countries, theme (e.g. energy, transport, water and sanitation), facility and whether the project perceives an environmental climate change objective. For each project, there is a short description of the context and of the project main objectives, the total facility contribution, the project's total budget, year of approval, lead financing institution, co-financing institution, type of support (e.g. technical assistance), sector and funding instrument.

The platform is a good starting point to provide more transparency. It would be helpful to allow to have aggregated information by, for example, sector, country or lead financing institution, so to provide a clearer image of where and how EU grants contribution are flowing. Moreover, the platform does not provide information about the financed projects' selection process and, once they have been financed, the foreseen monitoring and impact assessment framework. It is instead crucial information as it would allow checking whether the concept of additionality is respected and whether blended finance is complementary, not substitutive, to official development assistance.

TRANSPARENCY AND ACCOUNTABILITY	
STRENGTHS	**WEAKNESSES**
A platform on the European Commission International Cooperation and Development web site provides basic information on the 380 blending projects financed by the EU grants	The platform does not provide aggregated information about where and how EU grants contributions are flowing The platform does not provide information about the project selection process and their monitoring and impact assessment framework
OPPORTUNITIES	**THREATS**
To track financial flows for development and provide affordable, comparable information about blending operations To check whether the concept of additionality is respected To align with the OECD's TOSSD measurement system for development finance, distinguishing between the ODA and the non-development finance with a potential development impact	To incentivize donors to reduce traditional assistance To reduce transparency on whether blended finance is complementary, not substitutive to ODA

6.4 Participatory approach and ownership by developing countries

Blending loans and grants has been welcomed as a financial mechanism able to overcome market imperfections or market failures. As a consequence, blending mechanisms should represent a sustainable and affordable way for beneficiary governments to obtain significant additional financing for national development objectives.

The loan component of the blended fund may make the partner country closely involved and committed in the project design and in the implementation process, thus enhancing its ownership. Furthermore, it may increase financial discipline to repay the loan. The grant component, on the

[66] https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations_en

other hand, may enhance the long term public sector borrowing capacity and reduce the potential debt burden resulting from the investment.

Critics on the effectiveness of this approach refers to the fact that recipient governments are often only notified about a proposed program, while the agreement incurs only between the donor and the private entity. As a consequence, it is not clear to what extent the developments priorities (e.g. related to the sector and region of intervention) of beneficiary governments are taken into account.

For example, the Eurodad's report point out that the final grant decision is often taken by the EC or by the European Member states that may be strongly influenced by DFIs with potentially conflicting objectives (e.g. risk reduction)[67].

It would rather be important to align PPPs to the local, regional, institutional development strategies, as well as to allow the participation of civil society, stakeholders and beneficiaries in the definition of development priorities, conception, implementation, monitoring and impact evaluation of interventions[68], providing formal mechanism to their active participation.

PARTICIPATORY APPROACH AND OWNERSHIP BY DEVELOPMENT COUNTRIES	
STRENGTHS	**WEAKNESSES**
	Recipient governments are often only notified about a proposed program, while the agreement incurs only between the donor and the private entity It is not clear to what extent the development priorities of beneficiary governments are taken into account Formal mechanisms for civil society and affected communities participation are not foreseen Standards demanded to the not-for-profit sector when operating in developing countries are not demanded to the for-profit sector too
OPPORTUNITIES	**THREATS**
To overcome market imperfections or market failures, so to facilitate the access to additional funds in beneficiary countries To make the partner country closely involved and commit in the project design and in the implementation process (ownership) To increase financial discipline to repay the loan To enhance the long term public sector borrowing capacity and reduce the potential debt burden resulting from the investment	To let the donor decision be influenced by DFIs with potentially conflicting objectives To not align PPPs to the local, regional, institutional development strategies

[67] Romero, M. J. (2013) "A dangerous blend? The EU's agenda to 'blend' public development finance with private finance." *Eurodad: Brussels* 2013

[68] Oxfam International (2017), Sviluppo: un affare privato?, Briefing Paper, Aprile 2017

6.5 Support to the MSMEs and occupational impact

More than 93% of all paid jobs in sub-Saharan Africa are provided by the private sector. SMEs play a key role in job creation, providing two thirds of all formal jobs in developing countries and 80% in low income countries[69].

The European Parliament – which considers industrialization as a driver for well-being and development (especially through the development of local small and medium-sized enterprises and small and medium-sized industries) - asked the European Commission to promote, support and finance PPPs as the first option for development. Moreover, it stressed the need to promote the local private sector in developing countries (e.g. through access to finance and by promoting entrepreneurship) and to strengthen the support to build the capacity of domestic SMEs[70].

In this frame, blended finance has been welcomed as an instrument to allow the private sector playing its role in creating jobs, boosting growth and fighting poverty in low and middle-income countries. The theoretical ideas behind this role are based on the possibility that investments can have a multiplier effect on job creation through the supply chain, with a social return in term of job creation[71]. Nonetheless, there is little evidence about the impact of blending operations in terms of creation of employment opportunities and support to MSMEs.

During the period 2007-2014, according to the 2016's assessment commissioned by the EC's DG DEVCO, only 8% of the blending projects focused on the growth of MSMEs. Moreover, job and new businesses creation was generally not part of the expected objectives to be reached at a design stage, so that evidence on this regard is scant[72].

The EU-AITF Annual Report (2015) assessed that projects approved since the launch of the initiative resulted in 3.057 direct permanent jobs created and 55.198 jobs created during the construction phase[73]. Information on where these jobs were created and on the dimensions of the involved enterprises is not provided. The NIF Annual Activity Report (2015) does not report aggregated data on created jobs. The potential impact in terms of employment opportunities is estimated only for some blending operations, but this does not allow comparability between projects and, as a consequence, the derivation of good practices[74].

On the other hand, an evaluation conducted by Eurodad assessed a sample of projects from several DFIs portfolios between 2006 and 2010 and found that only a quarter of companies supported by the European Investment Bank and IFC were domiciled in law income countries, while almost half

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[69] EDFI – European Development Finance Institutions, ASBL (2016), Investing to create jobs, boost growth and fight poverty. Brussels, 2016

[70] European Parliament. Private sector and development. European Parliament resolution of 14 April 2016 on the private sector and development (2014/2205(INI)).

[71] On this point, see Carter, P. (2015), Why subsidise the private sector? What donors are trying to achieve, and what success looks like. ODI Report, November 2015

[72] Buhl-Nielsen E. et al. (2016), Evaluation of blending. Final report. Volume III – Methodological approach. Report prepared for the Evaluation Unit of the Directorate-General for International Cooperation and Development (European Commission). December 2016

[73] European Investment Bank (2017), Annual Report EU-Africa Infrastructure Trust Fund 2016, 07/2017

[74] European Union (2016), Neighborhood Investment Facility Operational Annual Report 2015. Luxembourg, 2015

of them were based in OECD countries or even in tax havens. Moreover, Eurodad found that 40% of the funded enterprises are big companies[75].

SUPPORT TO THE MSMES AND OCCUPATIONAL IMPACT	
STRENGTHS	**WEAKNESSES**
	Little evidence about the impact of blending operations in terms of creation of employment opportunities and support to MSMEs Only few blending projects focus on the growth of MSMEs and have job and businesses creation among their objectives
OPPORTUNITIES	**THREATS**
To let the private sector generate a multiplier effect on job creation through the supply chain, with a social return in term of job creation To promote the local private sector in developing countries (e.g. through access to finance and by promoting entrepreneurship) To increase the support to build the capacity of domestic SMEs	To target mostly big companies or companies not based in developing countries

7. Conclusions

This study analyzed the main European cooperation policies and investment programs for Africa and the Neighborhood countries. Through an analysis of the EU External Investment Plan, launched in 2016, the political willing to recognize a central role in development cooperation for the private sector was identified. This is justified by a number of reasons. First, the traditional public development assistance is suffering budget constraints, while needs to achieve the SDGs are substantial. Second, to fill the development financial gap has been recognized as necessary to mobilize additional resources and the private sector has been identified as the actor able to provide them. Third, it has been acknowledged the opportunity to create an integrated framework to facilitate a blending agenda.

This study therefore reviewed the main European blending facilities active to date for Africa and the Neighborhood countries: the EU-Africa Infrastructure Trust Fund, the African Investment Facility, the Neighborhood Investment Facility, ElectriFI and AgriFI.

This study also reviewed the role of the European Development Finance Institutions in implementing blending operations, in reinforcing public-private partnerships and in filling the development financial gap by attracting private investments in key sectors. A particular focus was given to the cases of the French and Italian cooperation systems: France, through the Agence Française de Développement is a leading actor in blending finance, while Italy has an innovating and renewed development aid system after the 2014's reform. In both cases, there is a growing

[75] Kwakkenbos, J. (2012). Private profit for public good? Can investing in private companies deliver for the poor. *The Reality of Aid*, 36-41.

interest in institutionalizing the role of the private sector in development cooperation and in mobilizing resources from private investors in key sectors of development, such as the energy and the agricultural sectors.

This study provided, by means of a SWOT analysis, a review of the main opportunities linked to the implementation of blending operations, which are usually mentioned to attract interest towards these mechanisms. On the other hand, it considered the related threats that are often raised by civil society. It also pointed out some of the initiatives already in place that could address effectively some of the weaknesses and threats identified.

The proposed SWOT analysis provides some recommendations for good practices and actions which might be undertaken to increase the effectiveness of blending facilities as instrument for achieving the EU external policy objectives. The following is a summary of these recommendations.

- **Blending operations should more clearly align with development objectives**, in order to effectively close the development financing gap and attract investments in key countries and sectors. Moreover, **they should align with the local, regional, institutional development strategies.** As a consequence, resources should increasingly flow towards low-income countries and towards sectors, such as education and health, where some value to the traditional development cooperation based on grant aids might be added. Partner countries should be closely involved in the initiatives design and in their implementation process.
- **A monitoring and evaluation system – conceived on the basis of a clear theory of change - should be set up. It will ensure that data are collected and analyzed on how various actors use blended finance and it will provide reliable and comparable evidence on the impact of blending operations on development indicators.** Evaluating the (financial, operational, institutional and systemic) additionality of financed initiatives is crucial to assess whether a blending operation is injecting economic efficiency in the market and is improving the quality of the investment from a technical, social, environmental, innovative or of governance standards point of view. Blending facilities should indeed promote initiatives with economic, social and development returns higher than their costs, so to ensure that public investments are not crowded out by a subsidized private sector.
- **Financial flows should be more transparent** in order to provide clear information on the alignment of blending operations with development objectives and on their impact on local communities and the environment. In this framework, formal mechanisms allowing the participation of the local civil society and of the affected communities should be set up. Moreover, the standards of transparency and accountability demanded to the not-for-profit sector when operating in developing countries through public resources should be extended to the private and for-profit sector.
- **Blending initiatives should be complementary not substitutive to traditional development assistance**, so that resources allocated for blending initiatives, even if they have a potential development impact, should not incentivize donors to reduce ODA and should not crowd out public investments.
- **Blending initiatives should focus more specifically on job creation,** targeting more effectively MSMEs that operate in developing countries, by promoting their growth and supporting their capacity.