

## **GROUP OF EXPERTS ON EU PLATFORM FOR EXTERNAL COOPERATION AND DEVELOPMENT**

### **Conclusions Paper**

#### **Executive Summary**

The mandate of the Group of Experts (GoE) consisting of Member States, the Commission, the European External Action Service, the EIB, and the European Parliament (Observer) is to develop proposals on the conditions under which an "EU Platform for External Cooperation and Development" could usefully be established. This means clarification and agreement on the benefits, objectives, tasks and mechanics of the Platform. A Commission proposal to establish the Platform could be prepared by mid-2012 following the conclusions of the GoE. The present paper aims at presenting the draft conclusions of the GoE following the discussions held and consultations with financial institutions.

The GoE unanimously recommends to the Commission that such a Platform should be established.

The overall objective of the Platform will be to improve the quality and efficiency of EU development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern the EU relations with the different partner countries, notably EU Development, Neighbourhood and Enlargement policies. This includes promoting cooperation and coordination between the EU, EIB and other relevant financial institutions (FIs) and other stakeholders, thereby increasing the impact and visibility of EU external cooperation.

The Platform should deal with all regions of the world where the EU is engaged in external cooperation and development. The Platform should provide guidance for the harmonisation of key principles regarding blending activities (e.g. financial instruments to be used, procedures) whilst allowing for differentiation by sectors and regions. The Platform should focus on sectors where financial instruments can be most usefully deployed, within and across geographical regions. The Platform should also help to strengthen coherence of blending activities with EU policies.

The first set of main tasks of the Platform will be to review and provide guidance to existing blending mechanisms and financial instruments to increase impact and coherence with EU policies and to reduce transaction costs. Second there are tasks linked to common principles, streamlining of agreements, and promotion of cooperation and coordination between the EU, EIB, other financial institutions and other stakeholders. Third there are tasks linked to the development of new financial instruments.

The Platform should engage, in one form or another, all relevant actors in the field of external assistance. A Policy Group consisting of Commission, EEAS, Member States, shall meet on a recurrent basis (for example twice per year), with the possibility of additional ad-hoc meetings. The Policy Group shall provide guidance, informed by the work of a Technical Group made up of the Commission and financial institutions experts. A secretariat, staffed by the Commission, will ensure the

coordination of sessions of the different groups under the Platform, and could be assisted by staff from EIB and other financial institutions.

The Platform, to be established as a Commission Group of Experts<sup>1</sup>, would not have a formal legal status although its structure and role should be set out in the Commission's report to Parliament and Council. In this format, the Platform could aim to start working in late 2012, with the aim to give relevant guidance on blending mechanisms and financial instruments in the context of the new EU financial framework 2014-2020. The relevance of the Platform will be assessed by an external evaluation after a period of at least three years.

## **Introduction**

In the framework of the mid-term review of the EIB external mandate 2007-2013, the Steering Committee of Wise Persons recommended to study the possibility to establish an EU Platform for External Cooperation and Development, based on optimal blending of resources and mutual reliance between participating finance institutions. Following the Commission's legislative proposal for a decision on the EIB external mandate<sup>2</sup> the Council and the European Parliament requested the Commission to study the development of an "EU platform for cooperation and development"<sup>3</sup> with a view to optimising the functioning of mechanisms for the blending of grants and loans in the field of external action.

A number of important geopolitical events have taken place after the completion of the Wise Persons report. Moreover from the EU policy perspective the establishment of an EU Platform should also be seen in the context of the debate on the Commission's communication "Increasing the impact of EU Development Policy: an Agenda for Change" published in October 2011.

For this purpose, the Commission created and chaired a Group of Experts (GoE)<sup>4</sup> of Member States, the European External Action Service, the European Investment Bank, and the European Parliament (as an observer) which assessed the costs and benefits of such a platform. This includes clarification and agreement on the objectives, tasks and structure of the Platform. In its reflections the GoE has consulted bilateral and multilateral finance institutions and other stakeholders.

A Commission report to the European Parliament and the Council to establish the Platform could be prepared by mid-2012 following the conclusions of the GoE. This paper aims at presenting the conclusions of the GoE.

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<sup>1</sup> To be established in line with the Framework for Commission Expert Groups (C(2010) 7649 final.

<sup>2</sup> COM (2010)174. Proposal for a decision of the European Parliament and of the Council granting an EU guarantee to the European Investment Bank against losses under loans and guarantees for projects outside the European Union.

<sup>3</sup> Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 and repealing Decision No 633/2009/EC, rectified 31

<sup>4</sup> Established in line with the Framework for Commission Expert Groups (C(2010) 7649 final

## Objectives

The overall objective of the Platform will be to improve the quality and efficiency of development and external cooperation blending mechanisms, taking due account of the policy frameworks that govern the EU relations with the different partner countries, notably EU Development, Neighbourhood and Enlargement policies. This includes promoting cooperation and coordination between the relevant actors, thereby increasing the impact and visibility of EU external cooperation.

Specifically therefore, the aim of the Platform should be to:

- Improve the effectiveness, efficiency, and transparency of financing EU development and external cooperation actions related to both traditional blending and new financial instruments for blending, considering the role and comparative advantage of participating institutions.
- Increase the impact and visibility of EU external cooperation blending mechanisms by increasing coherence and by formulating guiding principles on how blending mechanisms are used to support EU External Policies including the proposed approach to differentiation.
- Improve impact by achieving an appropriate quantitative and qualitative multiplier effect of scarce cooperation funds from donors and lenders and advise on the pooling of funds and innovative use of financial instruments. Develop standardised methods to measure and, as far as possible, compare the value added of blending operations. This will include qualitative as well as quantitative indicators, also in terms of economic and social improvements.
- Contribute to the reduction of overall transaction costs and administrative burden for partner countries, EU and Member States, EIB, other financial institutions and final beneficiaries.
- Improve the cooperation and coordination between the Commission, EEAS, MS, EIB, financial institutions and other stakeholders.

## Timing

The quicker the Platform can be established to carry out the tasks outlined in the next section, the greater is its potential role in providing guidance to the existing blending mechanisms and financial instruments and in assisting to the design of new ones in the next MFF. From 2016, i.e. at mid-term of the next MFF, it should assess and recommend further improvements. This includes reporting on how blending contributes to EU policy goals. Throughout, the Platform is to contribute also to an improved cooperation and confidence between partners. The relevance of the Platform will be assessed by an external evaluation after a period of at least three years..

## Scope

The Platform should deal with **all regions** of the world where the EU is engaged in external cooperation and development. The Platform should provide guidance for the harmonisation of key principles regarding blending activities (e.g. financial

instruments to be used, procedures) whilst allowing for differentiation by sectors and regions.

The Platform should play a role with respect to the EU policy of a differentiated approach to external partnerships. Geographical **differentiation** could be developed by considering various criteria. Differentiation could be achieved, inter alia, by offering different levels of concessionality, taking due account also of debt sustainability issues, risk-sharing, and in terms of types of instruments offered.

The Platform should help identify **sectors** where financial instruments can add value and be most usefully deployed, **within and across geographical regions**. It should in particular focus on possible interventions in alignment with the Commission Communication "Increasing the impact of EU Development Policy: an Agenda for Change" and corresponding Council conclusions, ENP action plans, the EU policy framework towards the Candidate Countries and other relevant policy frameworks. Importantly, the Platform should not only focus on classic 'economic' investments but also explore possibilities for blending mechanisms to leverage investment in 'hard to reach' areas and difficult sectors such as social sectors where little or no functioning markets exist and where blending mechanisms could help create markets, or where there are higher socio-economic than financial returns. This should be done whilst ensuring the economic viability of projects and avoiding market distortions which are essential preconditions for successful blending operations.

The Platform should analyse and **provide guidance** on sectoral issues having a cross-regional dimension and on the development of innovative financial instruments in the external field. The guiding principle would be to focus on EU policy priorities where value added and impact are highest, including in areas of market failure. The Platform should also provide guidance on how to ensure sufficient flexibility in diverse situations such as working with private sector in development, or addressing global challenges such as climate change and economic crises.

The Platform should help to strengthen the **impact of blending activities and coherence with EU policies**. It would, for instance, review the coherence between EU policy and the functioning of blending mechanisms whilst respecting their devolved governance.

The Platform should also consider the criteria underpinning the **ODA-eligibility** of blending activities in order to provide guidance on the optimisation of ODA-ability of blending mechanisms as applicable, and within the context of the standards defined within the OECD-DAC setting.

The Platform should promote **consistency, build shared knowledge, and promote the use of lessons learnt and best practices** across blending mechanisms as regards value added definition, monitoring, evaluation and impact measurement.

Given the reinforced base to the **aid effectiveness** agenda in the Lisbon Treaty, which calls for MS to coordinate their policies and gives the initiative to the Commission to promote the coordination of these policies, the work of the EU Platform and its outcomes should provide guidance to the activities related to the area of blending and financial instruments of those concerned by and participating in the Platform.

## Main Tasks

The main tasks have been divided into three main groups (in no particular order).

The first set of tasks of the Platform will be to **review and provide guidance to existing blending mechanisms and financial instruments, in order to increase impact and reduce transaction and other costs:**

- monitor, assess and compare the performance of different blending mechanisms and financial instruments based on, inter alia, performance and result indicators derived from the various interim evaluations and on their contribution to EU policies and visibility.
- evaluate the governance structure of existing blending facilities and the appropriateness of merging or closing of existing regional blending mechanisms.
- develop a results based framework for measuring impact against the *ex ante* determined objectives of blending operations and a more standardised reporting mechanism.
- provide guidance on the contribution of blending to a differentiated approach to aid allocation.
- reduce transaction and other costs.
- identify lessons learnt and best practices and promote these across different blending mechanisms and financial instruments, with the goal of achieving maximum development impact with scarce grant funding, as part of a "cycle of continuous improvement", whilst leaving room for effective and coherent response to different regions.
- provide guidance on ensuring the sustainability of investments and on achieving gradual reduction of grant needs in the long term
- promote transparency on the use of funds and procurement procedures, decision-making processes, monitoring and evaluation and share timely information on management of funds and evaluation of results
- elaborate on and provide guidance on the design of matching mechanisms between funds available for blending activities and partner countries public/private investment needs.

Secondly tasks linked to the development of common principles, **streamlining of agreements, and promotion of cooperation and coordination:**

- provide guidance for the harmonisation of framework agreements of the Commission and financial institutions on blending mechanisms involving the EU and Member States funds in line with the forthcoming Financial Regulation
- elaborate guiding principles to promote the cooperation of actors and promote the rationalisation of Memoranda of Understanding between partners
- promote the delegation of tasks to the lead financing institution and co-financing including the promotion of rules and basic principles for "mutual reliance" for financial institutions involved in EU mechanisms

- promote sharing of strategic and programming documents and of pipeline of projects between the Commission, EEAS, the EIB and other participating institutions
- promote coordination in the field, as well as a more systematic and enhanced pooling of resources and reciprocity of access and participation to blending mechanisms

Thirdly tasks linked to the **development of new financial instruments**:

- in addition to "traditional" blending of loans with grants (e.g. 'investment grants' and interest rate subsidies) and use of technical assistance grants, develop further other forms of blending (e.g. guarantee, first loss/subordinated participation, risk capital) that would constitute more innovative financial instruments (InnoFIs) taking due account of potential advantages and specific risks involved and how they should be managed.
- promote best practices and provide guidance on how to maximise impact and optimise the quantitative and qualitative multiplier effect of EU funds –taking due account of sectoral and regional specificities– by attracting financial (and technical) resources from EIB, EBRD, CEB and other European Financial Institutions (EFIs), Regional Development Banks, International Financial Institutions (IFIs), private sector banks and investors.
- consider the involvement of partner countries as co-funders in some types of blending activities
- provide guidance on most appropriate blending activities for the region/sector concerned with the goal of achieving maximum development impact with scarce grant funding.
- avoid a proliferation of blending mechanisms and assess the added value of newly proposed mechanisms using common criteria to the extent possible, taking into consideration differences between regions, sectors and nature of the financial instruments used.

### **Structure and Participation**

The Commission should have the secretariat and the Platform should engage, in one form or another, all relevant actors in the field of external assistance. This includes the Commission, EEAS, the Member States the EIB, European Financial Institutions (EFIs) - notably the EBRD, CEB, and other national/bilateral agencies - as well as relevant International Financial Institutions (IFIs) participating in EU blending mechanisms (see annex 5). The Platform will provide advice and guidance to the Commission and all participating actors.

At the same time, it is important to make the Platform workable and manageable in practice. The Platform should not duplicate or substitute existing structures.

**A Policy Group (PG)** consisting of Commission, EEAS, and Member States, with the European Parliament as observer, shall meet on a recurrent basis. The PG may invite, as appropriate, further observers to these meetings. In this context, certain members of the GoE have proposed that the EIB should be an observer. As regards the Chair of the PG, a majority of the GoE proposed a co-Chair arrangement between

the Commission and an EU Member State (on a rotating basis), as far as this is possible within the rules applicable<sup>5</sup>.

The PG shall **provide policy guidance** on overarching questions related to blending, informed by the work of a **Technical Group (TG)** .

The work of the Platform would be prepared by a TG consisting of the Commission, the EIB, bilateral and multilateral European Financial Institutions (EFIs) as members, and other financial institutions that participate in the existing EU blending mechanisms as observers. Depending upon the specific topic under discussion the PG may alter participation of a TG in order to ensure the most appropriate technical expertise is available to the Platform.

A commitment would be expected from participating financial institutions to help work out proposals related to topics in their field of expertise. A TG would work on topics agreed upon by the PG, which could include topics suggested by the governing structures of the regional blending mechanisms. It could also work on technical topics suggested by the Commission, EU MS, EIB, bilateral and other financial institutions. The progress reports or results of a TG are presented to the PG for discussion and possible endorsement. The TG shall meet on specific topics as needed. Whilst several GoE members suggested that the TG could be co-chaired by the Commission and EIB, others, proposed that TG meetings could be co-chaired by the Commission and a European bilateral or multilateral financial institution on a rotational basis, as appropriate and in accordance with their particular expertise.

The PG could also meet with a TG in an extended formation, for instance to jointly discuss blending policy issues, or for an exchange on a proposal worked out by the TG. Ad hoc consultation of other stakeholders (e.g. other IFIs, NGOs, Private Sector, Beneficiary Countries) should take place as necessary, upon request by the PG or upon Commission initiative, to deal with specific tasks and focusing on high priority sector specific or regional challenges. Consultation may also take place with the governing boards of existing EU blending mechanisms.

Occasional conferences with a wide group of stakeholders could also be scheduled as appropriate, which could be used to promote visibility and transparency of the work and results of this EU initiative.

The Platform as a whole would not have a formal legal status although its structure and role should be formally endorsed by the Commission and established as a Commission Group of Experts, respecting the rules governing such groups. In the future the structure of the Platform may be adapted in accordance to evolving needs.

### Outputs from the Policy Group

The Platform will not replace or duplicate existing decision-making structures. Where formal or legal decisions are deemed necessary, it will direct its proposals to the appropriate decision-making structure.

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<sup>5</sup> The Framework for Commission Expert Groups (C(2010) 7649 final)

The PG will produce **recommendations and guidance** that will include (but not be limited to):

- Guidance and recommendations directed at the governing structures of existing blending mechanisms and to PG/TG members, notably regarding the rationalisation and streamlining of existing blending mechanisms and development and operation of new blending mechanisms
- Guidance and principles aimed at enhancing the coordination and cooperation between PG/TG members
- Guidance and recommendations which should feed into the corresponding Council working parties and Comitology groups. The members of the PG will take the guidance and recommendations provided by the EU blending platform into account in the ensuing decision-making processes.

The PG will **review, propose and endorse**, among others:

- Work Plan of the Platform
- Proposals and work of the TG, including participants.

### Work Plan

In order to organise and structure the work of the Platform, an annual workplan will be adopted by the PG, outlining key topics to be addressed by the Platform. As regards the technical work, this could include a repartition of tasks, and where appropriate could for example allocate specific technical issues to particular (groups of) FIs for them to take the topic forward. This workplan would be flexible enough to accommodate unforeseen demands on the Platform. It would be reviewed on a regular basis by both the technical and policy groups.

### Practical Matters and Operational Costs

A secretariat at the Commission for the Platform would ensure the organisation and coordination of sessions of the different groups under the Platform, using a limited budget for administrative expenditure within the existing overall EU budget ceiling. The Commission could be assisted by staff from EIB and other financial institutions.

The operational costs of the Platform would vary in accordance with the intensity of the agreed work plan. As a minimum, costs elements would include:

- (i) Commission staff time necessary to ensure the working of the Platform
- (ii) Travel costs at approximately 20,000 euros for each meeting of the PG (it is assumed that no costs will be reimbursed for TG meetings).
- (iii) The Commission would seek external support for tasks related to the organisation of meetings and other practical activities

All other costs, notably related to participation in the meetings, are to be shared by the Platform participants.



## Accountability

The Commission will report at least annually to the European Parliament and Council on the work of the EU Platform.

## **Benefits of Establishing the Platform and Conclusion**

The GoE, following consultation with other stakeholders, consider that there are numerous potential benefits from establishing the Platform. This includes the potential for simplifying and harmonising procedures, improving coordination and ensuring coherence with EU external policies. The Platform can also contribute to improving and measuring impact of blending mechanisms and, based on shared expertise, to rationalisation (including recommendations for possible merger or closure of existing regional blending mechanisms) and development of new blending activities. These potential benefits must be compared with the costs of establishing the Platform which comprise modest administrative costs of the Commission plus burden of the time spent and work carried out by the participants in the Platform.

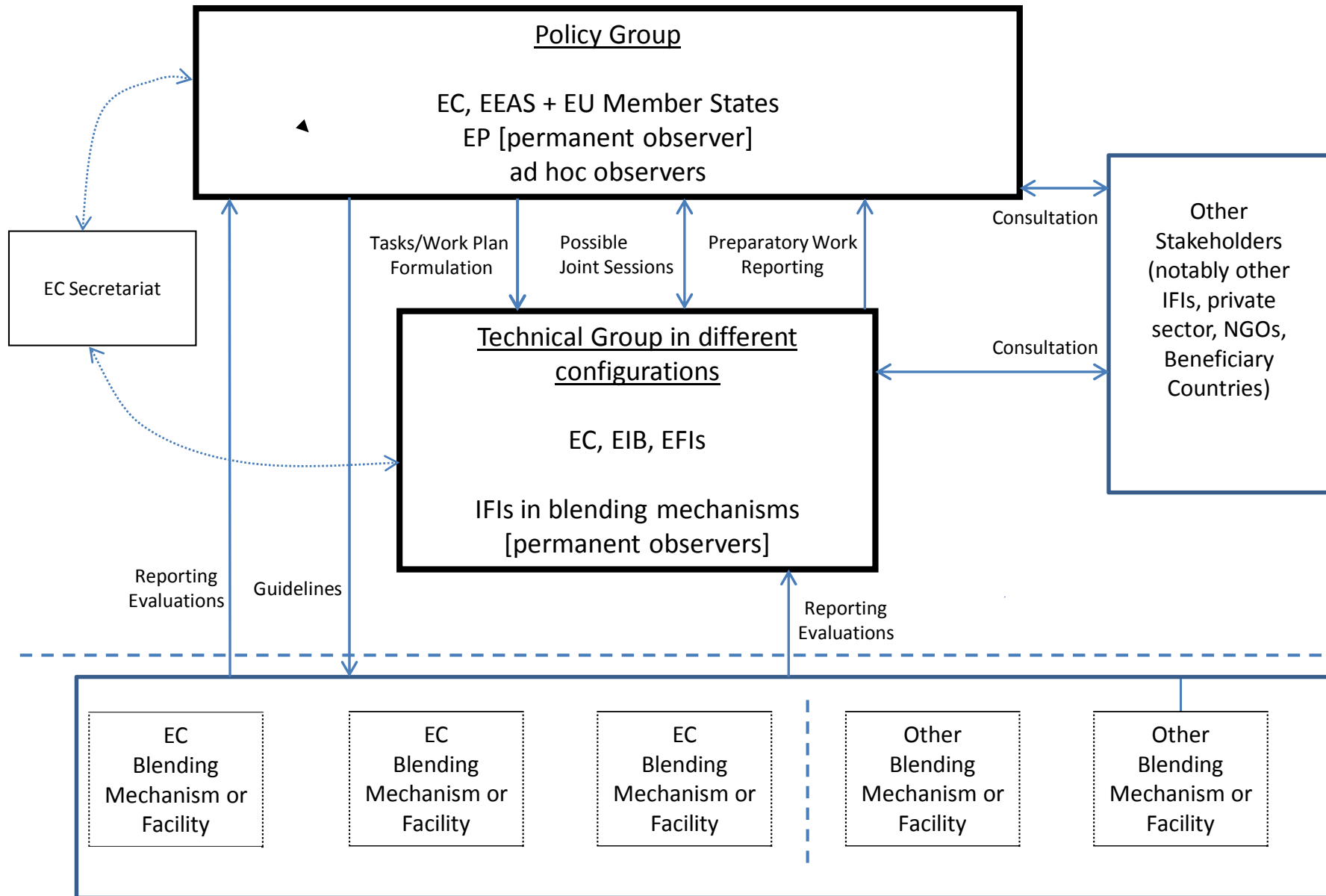
The GoE unanimously recommends to the Commission that such a Platform should be established.

The Platform could aim to start working in late 2012 if the Commission were to propose to the Council and Parliament to set up a structure which does not need a specific new legal framework.

## **ANNEXES**

1. Diagram of Platform
2. Explanation for conclusions: options and trade-offs considered by the GoE
3. Definition of Terms
4. Comparison of Models of Existing Regional Blending Mechanisms
5. Participation of IFIs in existing Regional Blending Mechanisms
6. List of Members of Group of Experts and Organisations consulted
7. Terms of Reference of the Group of Experts

# THE EU EXTERNAL PLATFORM



## **Annex 2: Explanation of Conclusions: Options and Trade-Offs Considered**

The work of the GoE has been developed inter alia by reflection on the following issues. The text in this annex provides additional explanation and reasoning used in support of the discussions on the GoE conclusions, but it is not formally endorsed by the GoE.

### **Scope**

Broad vs focused geographical and sectoral scope: The GoE have concluded that the broad scope of the Platform would enhance potential for value added by wide gathering of data and value added through introduction of new/best practices in specific sectors. The alternative of only focusing the work of the Platform in certain areas could make it more manageable but would limit its longer term potential and flexibility.

### **General Structure and Functioning of the Platform**

Whilst there has been general consensus amongst the GoE that the Platform should not be a new body as such, nevertheless the Platform has an extensive set of tasks to tackle. How to structure the Platform and effectively tackle these tasks is therefore critical. To avoid the creation of a new body, the objectives and tasks foreseen for the Platform imply the allocation of dedicated resources from both the Commission and of partners in order to make the Platform functional, in particular with regard to complex technical topics.

In considering the most appropriate participation in the work of the Platform there is a need to consider overarching coordination policy direction vs detailed technical analysis and development. Whilst representatives of EU Member States have a key role in coordinating and developing policy guidance, it is important also to draw on the undoubted expertise of the EIB and other financial institutions that are familiar with different blending mechanisms and operate in different regions of the world. The aim has therefore been to design a Platform that brings both policy and technical expertise together, to exchange good practice and ideas, and thereby develop excellent and relevant guidance. This has resulted in the idea for separate policy and technical groups that can be brought together as necessary and flexibly consult with wider stakeholders.

An important issue is the role of different financial institutions with respect to the discussions within and proposals to be developed by the technical group. The role of the technical group would be to exchange good practice and ideas, including with respect to the situation in different regions of the world. Participation in discussions at this technical level only aims at generating the best possible advice for the Commission and other participating policy actors. A clear commitment would also be expected from participating financial institutions to actively help work out proposals related to topics in their field of expertise.

For many topics to be developed by the technical group the availability of the widest ranging expertise of actively involved financial institutions could be expected to lead to the best possible advice. However, an option could be for the policy group to define

whether certain topics it proposes for development by the technical group, and that are not of an exclusively technical nature, merit discussion by a subgroup constituted of EC, EIB, and European financial institutions.

### **Legal Status of the Platform Structure**

A number of options could be considered for the legal status of the Platform or elements of the Platform. Firstly, in this context it is essential to refer to the consensus of the GoE that the Platform should provide guidance but not take legally binding decisions. Secondly it should be considered how to organise practically, the regular exchange at technical and policy level and in wider consultation with other stakeholders. These imply that the Platform should be an advisory body which is flexible in its configuration.

Several options should be discounted. If the proposed policy Group was established as a Council Working Group, this would make it difficult, if not impossible for a coherent Platform to be established with regular contact between the policy and technical group and wider formats. It would be also very difficult to imagine setting up a workable secretariat and organisation of the Platform as a whole.

A second option also discounted is the idea of the policy group as a Comitology Committee. It should be noted that the Platform will in any case work in parallel to, but not duplicate the already established Comitology committees (like DCI Committee or EDF Committee and their successors under the next MFF), where MS are invited to provide a formal opinion on all Commission programmes, including the (annual) proposals for additional contributions to the regional blending mechanisms. The role of a Comitology Committee is specifically defined as issuing formal opinions on proposed implementing measures submitted to it by the Commission as provided by Regulation 182/2011 of the Parliament and of the Council of 16 February 2011 laying down rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers. However, it is clear that this does not fit with the role, composition (not only MS) and tasks of the Platform which will work with a technical group, produce guidance on a broad range of issues, coordinate and carry out tasks which are much wider than those of a typical Comitology Committee.

If these are not appropriate then other options must be considered. Most appropriate appears to be the concept of Commission expert group. This is defined as a body set up by the Commission or its departments to provide it with advice and expertise, comprising at least 6 public and/or private-sector members and meeting more than once. These can be established as a formal expert group set up by a Commission decision or informal expert group set up by an individual Commission department. Formally expert groups are established to provide advice and expertise to the Commission and its departments in relation to the preparation of legislative proposals and policy initiatives (Commission's right of initiative), the preparation of delegated acts and the implementation of existing EU legislation, programmes and policies, including coordination and cooperation with member countries and stakeholders in that regard. Expert groups are essentially providing high-level input from a wide range of sources and stakeholders in the form of opinions, recommendations and

reports. Such expert groups would be registered and information would need to be published in line with normal rules of expert groups.

As elements of the overall Platform, the policy and technical groups could be established as formal or informal experts group(s). Other components of the Platform such as the wider groupings could occur in the form of ad hoc meetings or conferences with no particular legal status. Participation in the Platform could be perhaps formalised in writing, setting out the rights and obligations of interested participants.

Such an approach not requiring a new legal structure for the Platform would have the big advantage of being relatively quick to establish, allowing the new Platform to be start working much more quickly than something requiring formal legislative decisions.

### **Participation of Wider Stakeholders**

The GoE has also discussed the desire for a light administrative structure vs broad coverage and inclusive participation beyond financial institutions to include private sector representatives, civil society and beneficiary countries. On the one hand, it is evident that the membership of the Platform should be defined in a way to make it manageable and operational whilst on the other hand, there is broad agreement to include the interests and expertise of wider stakeholders and to engage them as appropriate in wider consultation mechanisms of the Platform. These ideas have been balanced by proposing a structure that could involve wider stakeholders as most appropriate in a flexible manner.

### **Annex 3: Use of specific terms in the Draft Conclusions Paper**

*'Financial instrument'* should be understood in the context of what is defined under this concept within the new Financial Regulation for the EU Budget (article 130(1)).

*'innovative financial instrument'* should be understood as fully falling under the same definition for financial instruments under the new Financial Regulation, but referring to a subset of such financial instruments that have not been used (extensively) so far in the field of external action, for instance, guarantee or first-loss-piece (being a type of equity)

*'(regional) blending mechanisms' or '(regional) blending facilities'* refers to the EC mechanisms set up with respect to the area of blending: AITF – Africa Infrastructure Trust Fund, NIF – Neighbourhood Investment Facility, WBIF – Western Balkans Investment Framework, LAIF – Latin America Investment Facility, IFCA – Investment Facility for Central Asia, AIF – Asia Investment Facility, IFP – Investment Facility for the Pacific, CIF – Caribbean Investment Facility. Annex 4 provides an overview of key aspects of the main models of these mechanisms, based on the AITF, NIF and WBIF.

*'Blending activities'* refers more broadly to a range of activities related to the area of blending. It is largely related to the different forms of blending as described in the final report of the 2009 "Working Group on the additionality of grants in the framework of blending mechanisms"

This report identified the following main forms of blending:

– *Direct investment grants:* This instrument provides direct finance for specific components of a project. They are the straightforward approach for assistance targeted at meeting redistributive objectives (pro-poor pro-growth development) or in cases where a significant cross-border externality of the investment under consideration justifies grant coverage of part of the costs. For projects which can derive positive financial returns and do not target these objectives, standard grants are not appropriate in order not to undermine efforts of e.g. collecting fees.

– *Conditionality / performance based grants* (such as Output Based Aid – OBA) are grants whose disbursement is linked to compliance with ex-ante defined conditions or service level performance targets. Their use becomes more pertinent the higher the donor support and are particularly justified in countries with weak governance where even marginal impacts could bring rewards in the overall business environment and where the use of such instruments can be a mechanism to align interest of the beneficiaries with the overall policy objectives pursued. Certain investment grants to projects can be put within this category which highlights the importance of an underlying policy linked to clear medium-to-long term objectives for the programme, and the adequate involvement of the beneficiary parties.

– *Interest rate subsidies:* The donor support serves to cover part of the interest payments. The partner country or project promoter thus receives a subsidised

loan at below market interest rates rather than a separate loan and grant. Interest rate subsidies – like investment grants - are used to enhance the concessionality of a financing package, e.g. to comply with debt sustainability requirements. If transaction costs for obtaining a credit are relatively high, donor support could be used to reduce part of these transaction costs without entering the lending market itself (increase transparency, evaluate collateral, or assist in paperwork). On the other hand, they may present a distortion effect, if access to financial markets or to un-concessional lending from other EFIs is warranted for the project promoter, as they directly reduce private and public sector loans' competitiveness. Furthermore, interest rate subsidies may lead to uncertainty on whether the donor support completely reaches the borrower over the life of the loan (e.g. in case of anticipated or accelerated repayment).

– **Loan guarantees** offer the lender recourse in case of default. In underdeveloped markets, capital preservation is a crucial factor for investors. Sharing the risk (losses) via loan guarantees, might entice lenders to open their financing for a specific country/sector/niche of companies. Losses, hence payments, materialise only ex-post, when real defaults occur – which probably means overall a higher gearing ratio in most cases. This assumes particular relevance in case of portfolio loan guarantees where added diversification further reduces the cost of risk coverage, thus optimising the budgetary impact. With a guarantee (provided free of charge or at a relatively low price to the lender), the interest rate charged to the borrower will be lower than without; from this perspective the effect of a loan guarantee can be similar to an interest rate subsidy. It may also help to lower collateral requirements. Loan guarantees can be combined with grant support to address particular market failures.

– **Structured finance - first-loss piece:** Donor interventions can play a significant role in structured finance projects. They are essentially needed for investing into the highest risk tranche of the structure (first-loss piece), thereby leveraging additional funding from international and bilateral development banks as well as the private sector. As for risk or mezzanine capital, the implied donor support element needs to be determined with care so as to optimise the participation of other financing partners and to allow for the crowding-in of private sector financing. In this context, it can be advisable to maintain some risk sharing with the project promoter even for the first lost tranche to ensure the required alignment of interest. The assumption should be that a finance institution investing its own money in the first-loss piece should aim at generating a return, while the donor support element should enable such institution to take an additional risk.

The report of this 2009 Working Group further indicated that, while not being forms of blending in the narrow sense, two other types of support are used widely in the context of loan-grant blending mechanisms:

– **Technical assistance** can be provided during the project preparation as well as during project implementation. It is a convenient way of providing clearly targeted donor aid to add value. The assistance can also include the financing of experts to improve efficiency of a project and/or to facilitate a know-how transfer in certain areas. TA for project preparation is less likely than other forms of LGB to cause additionality problems or market distortions depending on the ratio between TA and loan. However, efforts should be made to ensure



that the knowledge acquired through this process is maintained and spread also after the completion of the project. In several cases, the possibility to finance such a project component with donor fund is considered to be a desirable incentive for the promoter to accept implementation guidance.

– **Risk capital:** This use entails equity or quasi-equity investments which usually carry high risks. Compared to typical grants, risk capital investments must always be made under the assumption that such investment may generate a return. Risk capital offered (in particular) to SMEs and infrastructure projects is justified, as due to limited spreading of risks, internationally unconnected local markets would require higher risk premia than more developed markets. Risk capital can be offered either *pari passu* with other investors, where risks and remunerations are equally shared among investors, or on a *non pari passu* basis. The first approach is best suited in situations where there are other market operators willing to bear the underlying risk, but only on a limited scale. The second approach is most suitable in situations where market operators are reluctant to bear a particular type of risk and the donor support element should be used to carve out part of the risk. In this context, attention should be paid to prevent that too favourable conditions crowd out private sector financing, hamper financial market integration and more generally bias investment incentives. Thus, the implied support needs to be chosen with care.

## **Annex 4: Comparison of Models of Existing Regional Blending Mechanisms**

### **COMPARISON OF THE EU-AFRICA INFRASTRUCTURE TRUST FUND (ITF), THE NEIGHBOURHOOD INVESTMENT FACILITY (NIF) AND THE WESTERN BALKAN INVESTMENT FRAMEWORK (WBIF)**

#### ***Scope:***

All three instruments can support infrastructure projects in the field of energy, transport and water.

While the ITF's coverage furthermore includes the ICT sector, the NIF and WBIF include environmental projects (focussing on climate change mitigation and adaptation). The main difference lies in the ITF's restriction to regional infrastructure.

The NIF and WBIF may also support national projects, as well as private sector development (mainly SMEs) and social projects.

#### ***Type of support:***

ITF, NIF and WBIF may provide grant co-financing in the form of a direct investment grant, interest rate subsidy, technical assistance and insurance premia. The NIF may also provide risk capital and loan guarantees.

One difference between the ITF and NIF is the *de facto* usage of direct investment grants versus interest rate subsidies. The ITF mainly provides interest rate subsidies, whereas the NIF direct investment grants. While both types of support decrease the investment cost for the beneficiary, subsidies to the interest rate for a specific loan are provided to the respective finance institution and investment grants covering parts of the project cost are provided directly to the beneficiary.

The WBIF may furthermore provide incentives to financial intermediaries.

#### ***Eligible finance institutions & co-financing:***

In order to be able to present financing requests, eligibility has to be confirmed. In all instruments candidates are nominated by members of the operational body and confirmed by decision of the same body. All instruments also encourage finance institutions to present projects as a consortium.

The ITF allows a development finance institution, a bank, a member state agency or a public body with international development project expertise to be eligible; without any specific shareholding requirement.

The NIF only allows finance institutions where Member States altogether own the highest share of the capital.

The WBIF allows (i) the National IPA Coordinator (NIPAC) to submit projects or (ii) Multilateral International Financial Institutions (EIB, EBRD, CEB, WB Group) and Bilateral Development Finance Institutions to submit projects if the submission is accompanied by a letter of support of the NIPAC.

#### ***Funding:***

All instruments are funded by EU and Member States resources. The WBIF furthermore includes grant contributions from other bilateral donors (Norway) as well as from the CEB, the EBRD and the EIB grant resources.

The ITF pools both the EU contributions from the EDF and the Member States in a single Trust Fund.

Under the NIF Member States contributions are also pooled in a Trust Fund, but contributions from EU budget are not channelled via the Trust Fund.

In case of the NIF, funds for the Southern and Eastern Neighbourhood are separately earmarked.

Under the WBIF contributions from the donors are pooled into a Joint Fund, but contributions from EU budget may or may not be channelled via the Joint Fund. Contributions from Multilateral International Financial Institutions are not channelled via the Joint Fund.

### ***Overall architecture:***

All instruments follow a three-tier structure consisting of a strategic, operational and technical body. In the case of the WBIF the role of the strategic and operational body is carried out by one Committee.

The strategic body overviews the activities of the individual instrument and its role is to ensure consistency of the instrument's operations in line with the underlying objectives. It may furthermore define certain priorities.

The operational body's main role is to decide on the approval of projects. It furthermore ensures appropriate reporting of activities, visibility and may amend the underlying rules as well as decide on new financiers to become eligible.

The technical body is the mandatory channel for project proposals. It serves as a forum for technical discussion and coordination in view of improving the maturity of project proposals and giving its recommendation on the specific requests to inform the operational body.

In all instruments a secretariat is responsible for organising meetings, preparation of related documents and overall coordination.

Regarding the composition of the bodies, similarities are found on the strategic, operational and technical level:

On the strategic level, the NIF's Strategic Board is chaired by the Commission, the ITF's Steering Committee is co-chaired by the European and AU Commission and the WBIF's Steering Committee is co-chaired by the Commission and on a rotating basis by a contributor.

In the NIF's Strategic Board the Commission, Member States and other donors participate, with the partner countries and finance institutions attending as observers.

The ITF's Steering Committee consists of 29 EU members– 27 Member States plus Commission and EIB – and 29 AU members. The WBIF's Steering Committee is composed of representatives of the Commission, the partner IFIs, the Member States and the Contributors to the Joint Fund, each with up to two representatives. Beneficiaries are participating as observers.

At the operational level, both the NIF's Operational Board and the ITF's Executive Committee are chaired by the Commission, composed of Commission, Member States as well as other donors, with the finance institutions also attending. Under the WBIF the Steering Committee fulfils the role of the operational body.

When decisions are made over allocations of Trust Fund resources, only contributors may vote.

At the technical level, the NIF's Finance Institutions Group (FIG), the ITF's Project Financiers' Group (PFG) and the WBIF's PFG are an informal group of the eligible finance institutions. However, while the Commission attends and chairs the NIF's FIG and the WBIF PFG (as co-share with IFI) meetings, it is not present in the discussions of the ITF's PFG.

Under the NIF and WBIF, the Commission is responsible for the Secretariat; whereas under the ITF this role is assumed by the EIB.

***Project identification, screening & approval:***

Finance institutions are encouraged to coordinate and designate a lead finance institution, in charge of preparation and presentation of the grant request. In all instruments project proposals are first discussed in the technical body and then submitted to the operational body. Under ITF and NIF projects are presented by finance institutions exclusively, whereas under the WBIF are presented by the National IPA Coordinator (NIPAC) or finance institutions if accompanied by a letter of support of the NIPAC.

Before submission to the operational body proposals are reviewed by the finance institutions, the secretariat and the technical body. In addition to a peer-review assessment process between finance institutions, under the NIF and WBIF requests for investment support are screened under the lead of the Commission in its role as chair / co-chair of the FIG/PFG.

Grant requests to the ITF, NIF and WBIF are approved by the operational body.

ITF and NIF foresee a provisional approval (named "clearance in principle" at the ITF) and a final approval.

Both the Operational Board and the Executive Committee seek to take decisions on a consensual basis.

In the absence of a consensus, at the ITF a double majority decides, at the NIF common ENPI voting rules apply and at the WBIF final responsibility for deciding on the allocation of funds follows the management responsibilities of each funding source.

***Project implementation and follow-up:***

The specific project implementation and contractualisation procedures of ITF, NIF and WBIF may be found in the Annex.

The main difference between the NIF/WBIF on the one hand and the ITF on the other hand, is the use of standard Commission implementation procedures established by individual agreements under the NIF/WBIF and the direct disbursement of approved grant contributions from the trustee (EIB) to the lead financier in the absence of such individual agreements under the ITF.

In all instruments primary responsibility of follow-up, monitoring, evaluation and audit tasks lies with the lead finance institution and is carried out according to their respective standard procedures. The WBIF has established a system of monitoring through a MIS under the leadership of the Commission.

### Annex 5. Participation of IFIs in existing Regional Blending Mechanisms

Institution	Regional Blending Mechanisms involved in	Role (full member allowed to present and lead projects / observer )
EIB – European Investment Bank	AITF, NIF, IFCA, AIF, IFP, CIF, WBIF, LAIF	Full member
EBRD - European Bank for Reconstruction and Development	NIF, IFCA, AIF, WBIF	Full member
CEB - Council of Europe Development Bank	NIF, WBIF	Full member
NIB - Nordic Investment Bank	NIF, IFCA, AIF, IFP, CIF	Full member
AFD - Agence Française de Développement	AITF, NIF, IFCA, AIF, IFP, LAIF, CIF	Full member
KfW	AITF, NIF, IFCA, AIF, IFP, LAIF, CIF, WBIF	Full member
AECID - Agencia Española de Cooperación Internacional para el Desarrollo	AITF <sup>1</sup> , NIF, IFCA, AIF, IFP, LAIF , CIF	Full member
SIMEST - Società Italiana per le Imprese all'Estero	AITF, NIF, IFCA, AIF, IFP, LAIF, CIF	Full member <sup>2</sup>
OeEB - Oesterreichische Entwicklungsbank	AITF, NIF, IFCA, AIF, IFP, LAIF, CIF	Full member <sup>3</sup>
COFIDES - Compañía Española de Financiación del Desarrollo	AITF <sup>4</sup>	Full member <sup>5</sup>
SOFID - Sociedade para o Financiamento do Desenvolvimento	AITF, NIF, IFCA, AIF, IFP, LAIF, CIF	Full member <sup>6</sup>
FINNFUND - Finnish Fund for Industrial Cooperation	AITF	Full member <sup>7</sup>

<sup>1</sup> The participation of AECID at AITF is still to be confirmed.

<sup>2</sup> Satisfactory ex-ante assessment to be carried out before EC could delegate budget implementation tasks.

<sup>3</sup> idem, footnote 3.

<sup>4</sup> The participation instead of AECID is currently discussed.

<sup>5</sup> idem, footnote 3.

<sup>6</sup> idem, footnote 3.

PIDG - Private Infrastructure Development Group	AITF	Full member <sup>8</sup>
BIO - Belgian Investment Company for Developing Countries	AITF	Full member <sup>9</sup>
LuxDev - Luxembourg Agency for Development and Cooperation	AITF	Full member
AfDB - African Development Bank	AITF	Full member
WB - The World Bank	WBIF	Associate member
Caribbean Development Bank	CIF	Full member
IADB - Inter-American Development Bank	LAIF, CIF	Observers (LAIF) Role CIF to be determined
CABEI - Banco Centroamericano de Integración Económica	LAIF, CIF	Observers (LAIF, CIF)
CAF - Development Bank of Latin America	LAIF, CIF	Observers (LAIF, CIF)
OECD - Organisation de Coopération et de Développement Economiques		
ADB - Asian Development Bank (observers)	AIF, IFP	Observer

NOTE: All the references to the **Investment Facility for the Pacific (IFP)** and the **Caribbean Investment Facility (CIB)** are yet to be confirmed, as their establishment process is still ongoing.

NOTE: The EDFI members, who are already individually represented in some of the facilities, are included in the table. Other EDFI members are: CDC, DEG, FMO, PROPARCO, NORFUND, SBI-BMI, SIFEM, SWEDFUND.

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<sup>7</sup> Idem, footnote 3

<sup>8</sup> Idem, footnote 3. One project has been approved by the AITF Ex Com, as in the AITF no contracts / delegation agreements are directly signed with the EC.

<sup>9</sup> Idem, footnote 3

AITF	Africa Infrastructure Trust Fund
NIF	Neighbourhood Investment Facility
LAIF	Latin America Investment Facility
IFCA	Investment Facility for Central Asia
AIF	Asia Investment Facility
IFP	Investment Facility for the Pacific
CIF	Caribbean Investment Facility
WBIF	Western Balkans Investment Framework

**Annex 6. List of Members of Group of Experts and Organisations consulted**

<b>Group of Experts</b>	
<b>EIB</b>	
	Catherine COLLIN
	Alessandro CARANO
<b>EU Member States – National Experts</b>	
<b>Belgium</b>	
	Philippe GERARD
	Ariane MEUNIER
	Patrick DE BOUCK
<b>Bulgaria</b>	
	Etelka TCHERNAKOVA
	Rositsa DIMITROVA
<b>Czech Republic</b>	
	Pavlina SOLCOVA
	Roman HOLY
	Petra POSTLEROVÁ
<b>Denmark</b>	
	Vibeke GRAM MORTENSEN
<b>Germany</b>	
	Andreas HARTMANN
	Daniel MIEROW
	Dr. Olaf DEUTSCHBEIN
	Karin HOCHHAUS
	Stephanie EWERBECK
<b>Estonia</b>	



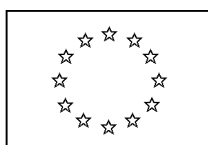
	Kriistina ABEL
<b>Greece</b>	
	Paraskevi KYRIAKOPOULOU
	Maria DIAMANTOPOULOU
	Ilias ZACHARIADIS
<b>Spain</b>	
	Rafael MATOS
	Rodrigo TILVE
	Cristina PEREZ GUTIERREZ
<b>France</b>	
	Mathilde BOUYE
	Etienne PETIT
	Fatène BENHABYLES-FOETH
	Valentine DELCOUSTAL
	Laurent GALLISSOT
	Jean Marc BELLOT
<b>Italy</b>	
	Annarita LIPPIELLO
	Elisabetta PUGLIESE
<b>Cyprus</b>	
	Demetrios THEOPHYLAKTOU
<b>Latvia</b>	
	Reinis TROKSA
<b>Lithuania</b>	
	Ernestas GRABAŽIS
	Olga SUMILOVA
<b>Luxembourg</b>	

	Tim KESSELER
	Arsène JACOBY
<b>Hungary</b>	
	Balint SZIJJARTO
<b>Malta</b>	
	Kevin VELLA
<b>Netherlands</b>	
	Heleen BAKKER
	Claudia PIETERSE
	Allard POSTMA
	Kim SOLBERG
<b>Austria</b>	
	Karin RYSAVY
	Reinhold GRUBBER
<b>Portugal</b>	
	Eunice ROCHA
	Manuela FERREIRA
<b>Romania</b>	
	Luminita BALAN
	Anca IONESCU
<b>Slovenia</b>	
	Robert RAMPRE
<b>Slovakia</b>	
	Iveta LUKÁČOVÁ
<b>Finland</b>	
	Anne AF URSIN
	Nina KATAJA

<b>Sweden</b>	
	Line VIKSTROM
	Stefan ISAKSSON
<b>United Kingdom</b>	
	Steve BULLOCK
	Jonas GOLTERMANN
<b>OBSERVERS</b>	
<b>European Parliament</b>	
	Bettina DE SOUSA
	Alix DELNASNERIE
<b>Candidate Member States – National Experts</b>	
<b>Croatia</b>	
	Miljenko UGARKOVIC
	Nike NODILO LAKOŠ
	Nina BOROVIAC
<b>Consulted Organisations</b>	
European Bank for Reconstruction and Development (EBRD)	
Council of Europe Development Bank (CEB)	
Nordic Investment Bank (NIB)	
African Development Bank (AfDB)	
World Bank Group (WBG) and International Finance Corporation (IFC)	
Agence Française de Développement (AFD)	
Kreditanstalt für Wiederaufbau (KfW) Bankengruppe	
Agencia Española de Cooperación Internacional para el Desarrollo (AECID)	
Società Italiana per le Imprese all'Estero (SIMEST)	

Sociedade para o Financiamento do Desenvolvimento (SOFID)
Oesterreichische Entwicklungsbank (OeEB)
Compañía Española de Financiación del Desarrollo (COFIDES)
Finnish Fund for Industrial Cooperation (FINNFUND)
Private Infrastructure Development Group (PIDG)
Belgian Investment Company for Developing Countries (BIO)
Luxembourg Agency for Development and Cooperation (LuxDev)
CDC Group plc (CDC)
German Investment and Development Company (DEG)
Netherlands Development Finance Company (FMO)
French Promotion and Investment Company for Economic Cooperation (PROPARCO)
Industrialisation Fund for Developing Countries (IFU)
Norwegian Investment Fund for Developing Countries (NORFUND)
Belgian Corporation for International Investment (SBI-BMI)
Swiss Investment Fund for Emerging Markets (SIFEM)
SWEDFUND International AB
European Development Finance Institutions (EDFI)
Inter-American Development Bank (IDB)
Banco Centroamericano de Integración Económica (CABEI)
Development Bank of Latin America (CAF)
Asian Development Bank (ADB)
Organisation de Coopération et de Développement Economiques (OECD)

## Annex 7.



EUROPEAN COMMISSION

### TERMS OF REFERENCE (REV. 5 DEC 2011)

## GROUP OF EXPERTS ON THE EU PLATFORM FOR EXTERNAL COOPERATION AND DEVELOPMENT

### I. THE MANDATE

In the framework of the mid-term review of the EIB external mandate 2007-2013, the Steering Committee of Wise Persons (SCWP) recommended to study the possibility to establish an EU Platform for External Cooperation and Development, based on optimal blending of resources and mutual reliance between participating finance institutions. Following the Commission's legislative proposal for a decision on the EIB external mandate<sup>15</sup> the Council and the European Parliament recently agreed to study the development of an "EU platform for cooperation and development" with a view to optimising the functioning of mechanisms for the blending of grants and loans in the external regions.

For this purpose, the Commission should create and chair a Group of Experts (GoE)<sup>16</sup> of Member States, the European External Action Service, the EIB and the Commission which would assess the costs and benefits of such a platform. In its reflections the group should consult other relevant actors, including European multilateral and bilateral finance institutions.

Such a platform would continue to promote synergies, mutual reliance arrangements, based on the comparative advantage of the different institutions, while respecting the role and prerogatives of the Commission and of the EIB in implementing respectively the EU budget and EIB loans. Based on the findings of the group of experts, the Commission should report to the European Parliament and the Council by mid-2012 and, if appropriate, make a proposal for the platform.

### II. THE CONTEXT

The Commission established over the last years a number of financial blending mechanisms under IPA, ENPI, DCI and EDF for combining EU grants with loans from the EIB and other European multilateral and bilateral financial institutions (such as, for example EBRD, the World Bank, CEB, NIB, AFD, KfW, OeEB, AECID,

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<sup>15</sup> COM(2010)174. Proposal for a decision of the European Parliament and of the Council granting an EU guarantee to the European Investment Bank against losses under loans and guarantees for projects outside the European Union.

<sup>16</sup> To be established in line with the Framework for Commission Expert Groups (C(2010) 7649 final

SIMEST, SOFID). These mechanisms are in general specialised by region, and include, *inter alia*:

- NIF (Neighbourhood region),
- WBIF (Western Balkans),
- LAIF (Latin America),
- IFCA (Central Asia),
- EU-Africa Infrastructure Trust Fund (ITF, Sub-Saharan Africa),
- Support to FEMIP (Mediterranean region)
- GEEREF (worldwide).
- AIF (Asia, adoption process advancing)
- Caribbean / Pacific (foreseen for end 2011)

The concept to create an EU Platform for External Cooperation and Development is coherent with the overall policy framework laid down in the European consensus on development adopted in 2005, which stresses the need to improve aid co-ordination. In this context, the EU is committed to increase its external aid effectiveness, in line with the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) and the outcome document from the Fourth High Level Forum on Aid Effectiveness in Busan, bearing in mind that blending instruments shall remain subordinated to overall EU development, neighbourhood and enlargement policies and objectives in the field of external cooperation like poverty alleviation, according to regional EU priorities. In particular, the establishment of an EU Platform should also be seen in the context of the debate on the Commission's General Development Policy Green Paper, launched late 2010, and the resulting Commission communication 'Increasing the impact of EU Development Policy: an Agenda for Change' published in October 2011.

In addition, new and pressing existing challenges are to be addressed by the EU in the context of its external relations, notably the financing of socio-economic development, the achievement of the MDGs, private sector support, climate change, neighbourhood policies as well as accession priorities. In connection with development policy, these stem from the Treaty on the Functioning of the European Union which sets the reduction and the eradication of poverty as the primary objective of the Union's development cooperation policy. In relation to climate change policy the UN climate change conference in Copenhagen (2009), has underlined the need to find solutions to finance the fight against climate change in developing countries. Article 21 paragraph 2 (d) of the Treaty also stresses the need to "foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty". In connection with the European Neighbourhood Policy, article 8 of the Treaty on European Union specifies that "*The Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation.*" This includes addressing worldwide existing challenges such as e.g. energy savings, the promotion of renewable energy or combating climate change.

The recent Commission Communication on the next Multiannual Financial Framework 2014 – 2020<sup>17</sup> underlined a number of principles underpinning the EU budget including to leverage investment through innovative financial instruments.

### III. OBJECTIVES OF THE GOE

The GoE would advise the Commission in preparing proposals for the possible establishment of the "EU Platform for External Cooperation and Development", starting with the **definition of the concept, scope and objectives** for such a platform.

**Key success criteria** to be taken into account for the design of the Platform include the following:-

- Contribution to, and coherence with, EU policies and policy objectives
- Improving effectiveness, efficiency and coordination of financing EU development and external cooperation actions related to blending or other innovative financial instruments, considering the role and comparative advantage of participating Institutions
- Leverage of EU grant funds with financing from financial institutions and other public/private sources of finance.
- The reduction of transaction costs and administrative burden for partner countries, EU and Member States.

In this context, the GoE should consider, inter alia, the SCWP report<sup>18</sup> recommendations and the recommendations of the Mid Term Evaluation of the ACP Investment Facility/EIB Own Resources activity in ACPs.

The report to be prepared by the GoE should analyse available options and **should express recommendations** on the composition and scope of the Platform. More specifically, the GoE should address the following points:

- The potential benefits and costs (value added) of establishing such a Platform
- Identification of the stakeholders and their possible role within the Platform.
- Definition of the geographical, sectoral and policy scope of the Platform and its contribution to a differentiated approach to development partnerships. For instance, the GoE should study how to ensure via the Platform sufficient flexibility in diverse situations such as support to traditional investment infrastructure, working with private sector in development, or addressing global challenges such as climate change and economic crisis. At the same time, blending of EU grants and resources from EFIs should focus on countries / sectors where it is most adequate on value added activities, on increased impact of development operations and less administrative costs for the actors involved. This would enable increased financing opportunities for specific sectors or countries that would otherwise not have been possible.

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<sup>17</sup> "A Budget for 2020", COM(2011)500 final of 29.6.2011

<sup>18</sup> Report and recommendations of the Steering Committee of "Wise Persons" in the context of the Mid-Term Review of the EIB external mandate, Feb 2010.

## Timing

The work of the Working Group of GoE will be completed once a final report has been agreed.

The GoE should finalise a report by spring 2012 so as to allow the Commission to report back to the Council and EP by mid-2012.

***[Please note that what follows refers to the Objectives of the EU Platform itself and therefore the Chair proposes that this will no longer be part of the ToR of the GoE but will be included as part of the separate Objectives paper that will be provided to and discussed with, the GoE].***

In order to optimise the functioning of blending mechanisms around an EU Platform for External Cooperation and Development, the GoE report should address how to make the Platform effective in addressing **the following, non-exhaustive, list of possible issues:**

### *Use of blending instruments to support EU policies and objectives:*

- Identify possible extensions of scope and the use of blending, in line with outcomes of the General Development Policy Green Paper debate and in line with the recommendations of the December 2009 report on Blending Mechanisms (e.g. guarantee, risk capital and revolving funds, PPP, private sector financing, etc.). The objective would be to further support EU policies and objectives in the field of external cooperation and EU accession and increase the impact on growth, investment and jobs in beneficiary countries. At the same time a proliferation of blending facilities should be avoided, and the added value of facilities shall be assessed using common criteria to the extent possible, taking into consideration differences between regions, sectors and nature of the used instruments.
- Based on the experience with blending mechanisms, notably the existing Commission facilities, further *optimize/improve* procedures and mechanisms (in line with the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) and the outcome document from the Fourth High Level Forum on Aid Effectiveness in Busan). This should also help enhancing European visibility, impact and the effectiveness of European cooperation.
- Identify ways to ensure the qualitative and quantitative additionality, non-financial leverage, and benefits of the grant element of funding to blending operations, in line with the principles on additionality of grants defined by the expert working group in Dec. 2009.
- Take into account regional, local and sector differences and specificities as well as set policy objectives such as supporting regional integration.
- Explore possibilities for blending mechanisms to also leverage investment in 'hard to reach' areas and sectors such as social sectors to address market failures, and to ensure wider benefits for populations.
- Consider how to incorporate a comprehensive results framework for measuring and communicating development impacts.



- Improve consistency and impact of instruments addressing global challenges, like the economic crisis, climate change and energy efficiency/renewables.
- Improve further consistency and impact of facilities and instruments with regard to development and external co-operation objectives of the EU as well as geographical policy aspects (i.e.: European Neighbourhood Policy, Enlargement). This should also take into consideration the differentiated approach to development partnership as laid down in the recent European Commission communication on increasing the impact of EU Development Policy. This includes the development of a framework for measuring against the *ex ante* determined objectives of blending operations and a more standardised reporting mechanism, incl. *ex post* evaluations.
- Clarify criteria and regulations of ODA-eligibility of financial blending instruments.
- Identify how to further enhance ownership by beneficiaries and partner countries.
- Contribute to ensuring the sustainability of supported investments with the view to gradually reduce grants needs in the long-term (exit strategy).
- Improve coordination and harmonisation of donor activities and ensure additionality of blending with other sources.
- Identify ways to favour more systematic and enhanced pooling of resources and delegation of tasks.

*EC-IFI cooperation and IFI cooperation*

- Identify ways to improve/deepen mutual reliance agreements to ensure harmonised and efficient procedures for beneficiaries while endeavouring to promote EU best practices and standards.
- Identify ways to improve “ex-ante”, policy alignment of IFI’s operations (project pipeline level).
- Foster synergies between finance institutions, e.g. with regard to coordination in the field or with regard to managing pipeline of projects.

The above elements should help enhance and optimise lending and operational capacities of finance institutions.