CEPS SPECIAL REPORT

Thinking ahead for Europe

Innovative Approaches to EU Blending Mechanisms for Development Finance

Jorge Núñez Ferrer

Arno Behrens

18 May 2011

Abstract

The European Union is strongly committed to fulfilling the Aid Effectiveness goals of the Paris Declaration and the Accra Agenda for Action, as well as the European Code of Conduct on Division of Labour in Development Policy. Towards this end, the European Commission, with the participation of many EU member states and European development financiers, has launched new financing instruments aimed at translating these commitments into real action. These instruments are grant and loan blending facilities, which link EU budget grants, member state grants and loans by international, regional and European bilateral financial institutions. This study reviews their performance and presents proposals to improve their operations.

This study has been carried out with the support of the German Federal Ministry for Economic Cooperation and Development (BMZ), under the responsibility of Daniel Mierow. Special thanks are extended to numerous officials at the European Commission, the European Investment Bank, l'Agence Française de Développement, KfW Bankengruppe and the Oesterreichische Entwicklungsbank AG for their valuable assistance and support (see Annex 4). Unless otherwise indicated, the views expressed are attributable only to the authors in a personal capacity and not to the BMZ, CEPS or any institution with which they are associated.

BMZ Federal Ministry for Economic Cooperation and Development

ISBN 978-94-6138-94-4

Available for free downloading from the CEPS website (http://www.ceps.eu)

Table of Contents

List of Figures

List of Tables

Abbreviations

AECID	Agencia Española de Cooperación Internacional para el Desarrollo
AFD	Agence Française de Développement
AIF	Asia Investment Facility
AfDB	African Development Bank
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BIO	Belgian Investment Company for Developing Countries
BMZ	German Federal Ministry for Economic Cooperation and Development
CCF	Climate Change Facility
CCW	Climate Change Window
CEB	Council of Europe Development Bank
COFIDES	Compañía Española de Financiación del Desarrollo
DAC	Development Cooperation Directorate
DFI	Development Finance Institution
DG CLIMA	Directorate General Climate Action
DG DEVCO	Directorate General Development and Cooperation – EuropeAID
DG ELARG	Directorate General for Enlargement and European Neighbourhood Policy
DG ECFIN	Directorate General for Economic and Financial Affairs
EBFI	European Bilateral Financial Institution
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEAS	European External Action Service
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EU	European Union
EWBJF	European Western Balkans Joint Fund
FEMIP	Facility for Euro-Mediterranean Investment Partnership
FI	Financial Institution
FIG	Finance Institutions Group
FINNFUND	Finnish Fund for Industrial Cooperation Ltd.
HIPC	Heavily Indebted Poor Country
IFCA	Investment Facility for Central Asia
IFI	International Finance Institution
IPA	Instrument for Pre-Accession Assistance
IPF	Infrastructure Project Facility

IRS	Interest rate subsidies
ITF	Infrastructure Trust Fund (for Africa)
JGF	Joint Grant Facility
KfW	KfW Bankengruppe
LAIF	Latin America Investment Facility
LDC	Less Developed Country
LGBF	Loan and Grant Blending Facility
MRI	Mutual Reliance Initiative (of the AFD, EID & KfW)
MS	Member State (of the EU)
NIB	Nordic Investment Bank
NIF	Neighbourhood Investment Facility
NIPAC	National IPA Coordinator
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OeEB	Oesterreichische Entwicklungsbank AG
PFG	Project Financiers Group
PIDG	Private Infrastructure Development Group
SIMEST	Societa Italiana per le Imprese All’Estero
SOFID	Sociedade para o Financiamento do Desenvolvimento, Instituíção Financeira de Crédito, S.A.
TA	Technical Assistance
WBIF	Western Balkan Investment Framework

Innovative Approaches to EU Blending Mechanisms for Development Finance

Jorge Núñez Ferrer & Arno Behrens

18 May 2011

Executive Summary

The European Union is strongly committed to fulfilling the Aid Effectiveness goals agreed in the Paris Declaration (2005) and the Accra Agenda for Action (2008) as well as the European Code of Conduct on Division of Labour in Development Policy (2007). The European Commission, with the participation of a number of EU member states and European development financiers, has launched new financing instruments for operations outside the EU aimed at translating these commitments into real action. Called loan and grant blending facilities (LGBFs), these instruments link EU budget grants – sometimes topped up with member state grants – with loans by European international and bilateral financial institutions, such as the European Investment Bank (EIB), the Agence Française de Développement (AFD), the KfW Bankengruppe, the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB).

Since 2007, three LGBFs have been launched: the Infrastructure Trust Fund (ITF) in Africa, the Neighbourhood Investment Facility (NIF) for countries under the EU Neighbourhood Policy and the Western Balkans Investment Framework (WBIF). In 2010, two new facilities were initiated: the Latin America Investment Facility (LAIF) and the Investment Facility for Central Asia (IFCA).

The positive results are uncontroversial. The grants offered by the European Commission and the EU member states in the framework of the facilities – together with important loans granted by the participating accredited financiers and other financial institutions as well as recipients' own contributions and private sector investments – have leveraged substantial volumes of additional development finance. For a grant element of €519 million, European donors together have provided additional development finance in the form of concessional loans of €9.56 billion for projects of a total value of over €19 billion. It should be noted that the costs of the blending instruments are modest; the combined European Development Fund (EDF) and EU budget funds for development come to €14 billion and EU Official Development Assistance (ODA) totals €53.4 billion for 2010. This leveraging of development funds is of particular importance today, given the rising demands for development finance, in particular to meet the Millennium Development Goals (MDGs) and climate change commitments, and the simultaneous budgetary constraints by government due to the economic crisis.

In addition, the LGBFs have increased joint European action for development and elevated European visibility in the regions concerned. Furthermore, the facilities have become centres for strategic dialogue with beneficiaries on large-scale development projects as well as collaboration and coordination platforms for the financiers.

Coordination on the development actions of the different EU institutions and member states promotes coherence and helps avoid duplication of efforts. The structure of the facilities is designed to make donors and financiers pool their resources and know-how to support the respective EU development strategy in the regions. This is of particular importance for development projects that one single actor would not be able to tackle alone in terms of the magnitude of the financing, risk or management capacity or that would not have been implemented without a grant element. Moreover, according to many stakeholders interviewed

for this project, the emergence of LGBFs has improved the effectiveness and impact of development assistance in qualitative terms, increasing the value added of EU development financing, by avoiding duplication of effort or parallel uncoordinated projects and by merging formerly separate projects into single, larger and more coherent ones.

The facilities guarantee a voice and ownership on the part of the beneficiaries by drawing them into the strategic decision-making body. Operational aspects are divided based on best capabilities, leaving the financiers to propose projects jointly identified with partner country institutions and to estimate the grant needs based on their development and financial expertise. The operational body, composed of the member states and the European Commission, analyses the proposals and decides whether or not to approve the project. Operational and policy aspects are thus treated separately.

While the basic architecture of the facilities – composed of a strategic board, an operational board and a financiers group – is similar, a number of rules on their composition, set-up or use of grants differ. Some of the differences are dictated by needs on the ground or by different EU strategies for the regions. Others are shaped by the preferences of different DGs, which – on behalf of the European Commission – have set up the facilities according to their regional responsibilities as well as by the different EU funds (e.g. European Development Fund, European Neighbourhood and Partnership Instrument, Development Cooperation Instrument or Instrument for Pre-Accession Assistance) that are utilised. A third set of differences stems from the absence of basic principles applying to *all* facilities. For example, the basic parameters on loan grant blending were established by the Working Group on the Additionality of Grants in the Framework of Blending Mechanisms called for by the Ecofin Council in 2009 (see European Commission, 2009), whereas the range of proposed grant instruments that the facilities could offer, presented in that same report, have not all been used in practice.

This report focuses primarily on operational needs, because the objective of the facilities should be to increase the volume and quality of development finance while ensuring better coordination and effectiveness, as the EU has committed itself to doing. The study arrives at the following six conclusions.

1. Sustaining the success factors: Flexibility according to operational needs

Blending mechanisms represent only one instrument among many available in a broad development strategy for development cooperation of the European Union. Although generally well-functioning, they are still in an early phase and should be treated as ‘work in progress’. One aspect that has facilitated the operational success of the facilities is how they have adapted effectively to the needs of the regions; thus any reforms need to ensure that the necessary flexibility is preserved. There is also coherence in the regional coverage of the facilities, and a subdivision or an unnecessary multiplication of facilities should be avoided.

One important success story of the existing LGBFs is the collaborative and trustful manner in which the European financial institutions interact, due to the fact that they are on an equal footing as a result of the Commission’s accreditation process. The coordinating role of the European Commission moreover is considered as an important element not only to ensure a balanced relationship between the financial institutions but also to ensure coherence with the respective EU regional policies.

The facilities should be restricted to European development financial institutions as Lead Financier with a need for clearer rules and requirements for the inclusion of non-European institutions. There is a need to ensure equal treatment of all financiers in the facilities, such as access to grants and rules of procurement.

2. Determining grant type and size by project requirements

In general, the facilities are not appropriate to finance projects that are only possible with very large or exclusively grant elements. There are other instruments available in EU development cooperation for those purposes, such as humanitarian aid, grants for institution-building, budget support, etc.

To ensure that the facilities leverage optimal funding for the best projects, the grant types offered and actually applied should cover the whole range of support tools (especially interest rate subsidies and guarantees/risk mitigating mechanisms). Restricting grant instruments could negatively affect the expansion and effectiveness of the facilities.

If there are concerns regarding the transparency on the level of grant calculations by the financiers, this could be dealt with by clear provisions to further substantiate the financier's grant request. To increase transparency, the European Commission equally could disclose the criteria that determine its allocation of grant elements.

3. Ensuring that the loan-grant blend qualifies as official development assistance

There are particular rules to allow loans to be recorded as official development assistance (ODA). The level of concessionality of a loan depends on how the grant and loan are linked. If a grant is given separately from a loan, even for the same project, the loan can only be accounted as ODA if it fulfils the criteria on a stand-alone basis. This might require an arrangement to manage the grant through the accredited lead financier of a project, which is the case in the ITF but not yet in other facilities.

Grants should generally be supplied in projects under one financial agreement together with loans, for purposes of reducing transaction costs.

4. Addressing climate change

Between 2007 and 2010, the existing facilities invested some €7 billion in climate change-related projects, representing about 40% of the total value for the projects in the facilities. To pursue this effort and better account for it, the European Commission proposed to integrate a Climate Change Window (CCW) into each of the existing regional facilities. This has in principle been agreed for the NIF, IFCA and LAIF, and this report recommends pursuing this solution for all facilities. The potential alternative, a thematic Climate Change Facility, could conflict with the regional development strategies and could cause additional administrative costs.

The CCWs should be set up quickly, immediately including the projects already targeting climate change in the different investment facilities and following the same rules and financing and implementation modalities of the existing regional facilities.

If properly implemented, the CCWs would ensure better tracking and visibility of climate actions within the investment facilities and may encourage EU member states to add funds to the investment facilities, especially earmarked for the CCWs. This would be the result of the European Commission's proposal for a special section on climate change in each of the facilities' annual reports, but also a special annual report on global climate change financing summarising the climate change-related projects of all facilities.

5. Improving coordination between funds

The funds are provided in a different manner by the various facilities. Only the ITF has a fully common trust fund of member states and the European funds, most likely due to the fact that the EDF is external to the EU budget. The NIF has separate trust funds for the member states and the grants from the EU budget. The Western Balkan's facility has five funds, one by the European Commission, one by the member states and three by partner International Financial Institutions (EBRD, EIB and CEB).

Separate grant funds are not a problem *per se* except for additional administrative complications and costs that may occur due to the parallel management of different funds. The question whether the European Commission should eventually manage trust funds must be addressed in the review of the financial regulations.

6. Meeting minimum standards

Due to their recent establishment, the facilities do not yet have unified standards on monitoring and evaluation. The monitoring of individual projects is currently ensured by the lead financial institution, which has a primary interest in following up the relevant parameters to ensure the development results and sustainability of projects. For accountability reasons, the project's progress and development impact needs to be reported to justify the facilities to the donors and the European institutions. Setting a selective and critical number of minimum monitoring and evaluation requirements could help to facilitate comparability and a coherent informational basis on the performance of operations under the different facilities without causing excessive surcharges to the lead financier. Since procedures have been assessed for financiers' accreditation, the European Commission should substantially accept the lead financiers' standards, as long as those are compatible with the EU reporting obligations given by the financial regulation.

7. Designing options for a comprehensive EU platform for external cooperation and development

Referring to the experience and lessons learnt from the existing LGBFs, there is still considerable room for improvement to be achieved if the aforementioned recommendations are to be considered. This study recommends at least for the medium term further integrating the blending mechanisms *within* the existing structures rather than setting up a new structure or mechanism in order to remedy existing weaknesses. An in-depth evaluation regarding the progress of the existing and possibly improved blending facilities should be carried out after a certain period of time to assess whether the existing models could even be feasible as a long-term solution.

However, the facilities require an improved coordinating and facilitating structure to assist their operations by certain minimum requirements and principles on the application of blending criteria, carrying out monitoring, evaluation, reporting (e.g. calculation of leverage effect of facilities) and gathering information for analytical as well as communication purposes. This should be done within an efficient European Commission structure, avoiding bureaucracy and excessive administrative costs.

All relevant stakeholders (European Commission, member states, European multi- and bilateral financial institutions) should look into that option when discussing the future of EU blending mechanisms and an eventual EU blending platform.

Innovative Approaches to EU Blending Mechanisms for Development Finance

Jorge Núñez Ferrer and Arno Behrens*

3 May 2011

1. Introduction

As part of the commitments in the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008)[1] and the European Code of Conduct on Division of Labour in Development Policy (2007),[2] the European Commission set up new instruments to improve EU donor coordination, increasing the leverage of EU development finance and enhancing the effectiveness and efficiency of its operations. These instruments are loan and grant blending facilities (LGBFs), linking EU budget grants – sometimes topped up with member state grants – with loans by the international, regional and European bilateral financial institutions such as the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB), Nordic Investment Bank (NIB), Agence Française de Développement des Etats de l'Afrique Centrale (AFD) and KfW Bankengruppe. These LGBFs are one of the very few examples worldwide of a successful translation into action of the aid effectiveness commitments.

Blending grants and loans is an acknowledged practice in international development finance, while the very recent LGBFs offer new opportunities in EU development projects, such as enhancing coordination, efficiency, impact and division of labour at European level. The grant element is provided to the best projects presented by the financial institutions, based on the regional strategy of the facility and agreed-upon eligibility criteria. The facilities are conceived to facilitate collaboration between financiers in order to promote the coordination of European DFIs (development finance institutions), the elaboration of joint European offers and to enhance aid effectiveness in the respective region. This allows for larger projects to develop that one financier alone would not undertake, or the joining of related individual projects of separate financiers into a larger, more coherent project. Thus the funding of projects should ideally be financed by more than one financial institution. Although these LGBFs are still relatively new, in evolution and limited in size, they are considered quite important in advancing the Commission's three objectives:

a) to increase the leverage of EU grant support, i.e. attract additional funding to combine with the grant to achieve larger development objectives;
b) to increase aid effectiveness by enhancing coherence, cooperation and coordination; and
c) to increase the visibility of EU development aid.

The LGBFs appear to have been successful in achieving those objectives. They create a new quality in European development cooperation as a framework for donors to pool their development expertise and resources to better collaborate, thus allowing more effective and larger investment programmes and projects to emerge. Table 1 presents the LGBFs that have been established since 2007 (for more detailed information, see Annex 1).

---

* Jorge Núñez Ferrer is an Associate Research Fellow at CEPS and Arno Behrens is a Research Fellow at CEPS.

1 Texts published by the OECD (2008), "The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action", OECD, Paris.

2 See European Commission (2007).

Table 1. Overview of EU blending facilities

Name of facility Region covered:	Launch date	Grant funding	Participating financiers (31/12/2010)
ITF: Infrastructure Trust Fund for Africa 47 African countries[a]	2007	Grant funds allocated: €308.7 million from 10th EDF + €64 million from MS budgets	AFD, AfDB, BIO, COFIDES, EIB, FINNFUND, KfW, Lux-Development, MoF Greece, OEeB, SIMEST, SOFID, PIDG
NIF: Neighbourhood Investment Facility Countries eligible for the European Neighbourhood and Partnership Instrument (ENPI)[b]	2008	€700 million 2007-13 from EU budget + €62 million from MS budgets	AECID, AFD, CEB, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID
WBIF: Western Balkan Investment Framework Western Balkans[c]	2009	€110 million from EU budget + €10 million EIB, €10 million EBRD, €10 million CEDB + grants from MS budgets	CEB, EBRD, EIB, KfW
LAIF: Latin America Investment Facility Latin American countries[d]	2010	€135 million 2010-13 from EU budget	AFD, BCIE, BID, CAF, EIB, KfW, NIB, OeEB
IFCA: Investment facility for Central Asia Central Asian countries[e]	2010	€20 million 2010 from the EU budget	NIF accredited institutions can participate.
AIF: Asia Investment Facility	In develop-ment		

[a] Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo Brazzaville, Democratic Republic of the Congo, Eritrea, Ethiopia, Djibouti, Gabon, Equatorial Guinea, São Tomé & Principe, Ghana, Togo, Guinea-Bissau, Republic of Guinea, Côte d'Ivoire, Liberia, Kenya, Somalia, Lesotho, Swaziland, Madagascar, Malawi, Mali, Mauritania, Mauritius, Comoros, Seychelles, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Cape Verde, Gambia, Sierra Leone, Sudan, Tanzania, Uganda, Zambia, Zimbabwe.

[b] Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Georgia and Russia and Ukraine, Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Syria and Tunisia.

[c] Albania, Croatia, Bosnia and Herzegovina, Kosovo, Montenegro, FYROM, Serbia.

[d] Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, Peru, Paraguay, Uruguay, Venezuela.

[e] Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The aim of the LGBFs is to increase the leverage for development funding as well as increasing efficiency, ownership, impact and visibility of EU development cooperation, as these grant facilities can multiply the level of development finance compared to separate grant and loan assistance and facilitate the implementation of partner countries' priorities. There are very good reasons for using LGBFs in EU development cooperation due to:

a) The increasing demand for development funding, not only to meet the Millennium Development Goals (MDG), but also for the additional resources to assist developing countries in adaptation and mitigation to climate change;

b) Their increasingly limited budgetary resources of donors in the course of the financial crisis; and
c) The important economies of scale this approach generates as a result of improved coordination and pooled resources.

The performance and contribution to EU development aims will depend – among other factors – on the efficiency of the coordination of the instruments developed for managing the resources. It is for this reason that the wise persons' report ('Camdessus' report) on the performance of the EIB external mandate operations 2007-2013 (EIB, 2010a, pp. 29-31) calls for an "EU platform for external cooperation and development". The report notes the increasing need to better coordinate the work of the facilities, but does not give concrete recommendations for the design of such. In response, the Overseas Development Institute (see Gavas et al., 2011) has released a new report concentrating on the EU's blending instruments, reviewing their performance and presenting proposals for potential governance structures.

The ODI document evaluates positively the blending mechanisms and the potential benefits, but shows that the governance structures have developed partially ad hoc and may require better coordination and common standards to further optimise their performance. Nevertheless, the optional governance structures presented by these reports are neither sufficiently based on operational needs facing the financial institutions, nor on the concerns by donors.

It is important to take into account that the LGBFs of the EU are very new – the 'eldest' facility is operational only since 2007. To a certain extent those facilities are 'work in progress' and improving with practice. It is not possible – nor advisable – to impose altogether new governance structures at this stage. The EU LGBFs are a uniquely European structure, not directly comparable to international trust funds, due to the partnership and dialogue between EU institutions, governments, beneficiaries and financiers within the facilities.

Presently, in view of the realities in the field and the concerns of practitioners, it is clear that the main requirements are of an operational nature. There is a need for a measured and well-targeted effort to optimise the performance of blending operations. This can be achieved by developing more coherent guidelines on governance, on the participation and obligations of financial institutions and other stakeholders, on the calculation of grant shares and grant types (by country, sector and characteristics of the projects) and on monitoring.

This report is the outcome of a detailed research project on the facilities and numerous interviews with main stakeholders (Annex 4). It focuses on the present and mid-term needs of the facilities and in particular the discussions on an eventual EU platform for external cooperation and development. It should be regarded as a consultation document providing options for EU decision-makers focusing on the overall reforms of the EU budget interventions being discussed for the next Multiannual Financial Framework.

This report is divided into 6 sections. Following this introduction, section 2 briefly presents the EU blending facilities and describes their operations, before offering in section 3 a theoretical rationale for these financing mechanisms. Section 4 describes the functioning and the operations of the blending facilities in more detail, pinpointing specific strengths and weaknesses. Section 5 suggests, based on the analysis provided, some potential improvements to the functioning of the facilities, and section 6 offers some concluding remarks and a discussion of the way forward.

2. Overview of the EU's blending facilities for development cooperation

The practice of linking grant elements to loans is an established practice in many development programmes run by the EU and the member states. The principle of loan grant blending is not new and has a long tradition in bilateral (France, Germany) as well as multilateral development banks' cooperation. However, applying blending mechanisms in a broader perspective in EU development cooperation through the established regional EU LGBFs is still a rather new approach.

These EU LGBFs are comparatively modest in size. To put them into perspective, the financial allocation to the facilities has been very limited to date, totalling approximately €1.26 billion over the period 2008-13, including EDF, EU budget and EU member state donors all together. In comparison, the total Official Development Assistance (ODA) by the EU and the member states has been estimated at €53.8 billion in 2010[3] (0.43% of the EU's GNI). EU spending from the EDF budget and from other development funding of the EU budget amounted to €14.5 billion in 2010.

Thus, the grants available for the instrument's facilities are rather modest, but the final financial impact of the facilities is not, as the grant instrument has been successful in attracting funding for projects by European bilateral financial institutions (EBFIs), the EIB, other IFIs and other funding sources (especially from the partner countries themselves). The very different role of the funds and area of intervention is reflected in the number of projects and their size (the results are summarised in Figure 1).[4]

The ITF has approved 19 projects between 2007 and March 2011, with a grant value of €175 million, leveraging close to €1.3 billion in loans from EBFIs and IFIs for a total project cost value[5] of €2.2 billion.[6]

The NIF has an accumulated grant value of €277 million for 39 projects, leveraging close to €5.1 billion in loans from EBFIs and IFIs for a total project cost value of €10.13 billion for 2008-10.

Finally, in the Western Balkans between December 2009 and early December 2010, 39 projects were approved with grants of €40 million and loans of €582 million mobilising a total investment of €1.6 billion. In addition, the WBIF integrated 39 earlier projects under the IPF (Infrastructures Project Facility – precursor blending facility focused exclusively on infrastructure), bringing the total to 78 projects with a grant value of €139 million, with €3.2 billion in loans for a total project cost of €6.8 billion. The WBIF is very different to the NIF or the ITF, as the beneficiaries are in a pre-accession process and thus aiming to adopt the EU *acquis*. The EU has an interest in their participation in similar terms as member states, rather than third country beneficiaries. These countries also use IPA funding, which is then used also to co-finance WBIF projects. The WBIF is a complex facility particular for the Western Balkans and as such will need a different approach to other facilities.

While the collaborative LGBFs are being considered as very successful and promising, the facilities have developed into three different structures (ITF, WBIF and the other following a NIF structure) leading to differences in procedures and governance, mostly warranted by different needs in the regions, but without an encompassing methodology.[7]

[3] IP/11/410, Brussels, 6 April 2011.

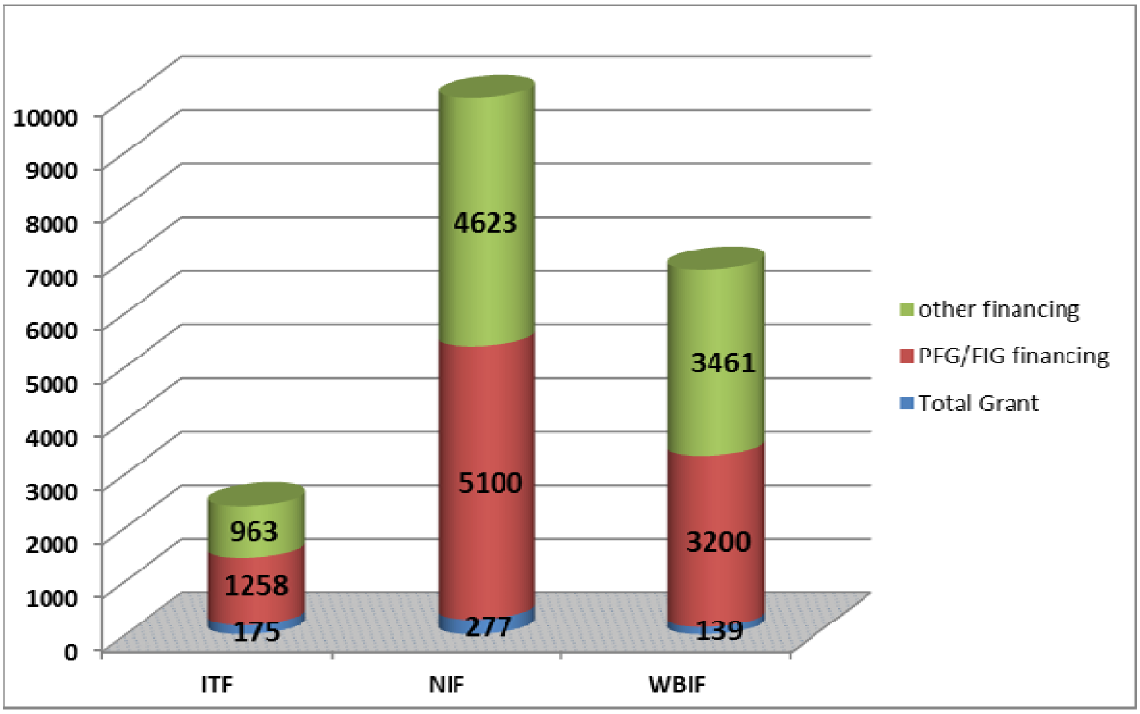
[4] Data originate from the annual reports: European Commission (2009a and 2010) and EIB (2010b).

[5] The total project cost value is equal to the total cost summing the grant, loans by the accredited financial institutions and other sources of finance.

[6] As of 24 March 2011.

[7] Which even a first expert group could not fully overcome with its recommendations issued in December 2009.

Figure 1. Grants, financiers' loans and other funding in the LGBFs (€ million)



Note: The ITF figures only list projects that are under an investment phase as at 24.03.2011, while for the other facilities it presents the figure for all approved projects until 31.12.2010.

3. Rationale for EU blending instruments for development

Blending has been recognised as an important tool to raise the volume and impact of EU development finance. By pooling and combining financial resources, development expertise and capacities of different donors and development financiers into one instrument and by enabling various accredited EBFIs and IFIs to have access to those funds and by mixing them with their own resources, the potential size, quality and the overall coherence of European development cooperation increases significantly.

It is important to keep in mind that blending of grants and loans is not to be seen as a substitute for grant aid, but as an instrument to ensure that loan elements are used where needed to improve development interventions. Emergency aid, support for technical assistance and aid for social non-market oriented assistance will further require grant-based intervention. Nevertheless, for many development objectives, there are a number of compelling reasons to use blending mechanisms, both economic and strategic. This section presents a short list of arguments which are based on the European Commission's blending report (2009) and further discussions with the stakeholders.

3.1 Economic rationale

Blending of grants and loans has an impact on the overall cost-benefit balance of projects. As such, they enable projects and sector investment programmes to take off which would not have taken place without the blending facility. Grant elements reduce the overall cost and risk of projects, and reduce the interest costs to the beneficiary of the loans. Grant elements are thus particularly suited for two types of projects. The first are projects that are important for the beneficiary and help to fulfil development objectives, but cannot attract financiers at normal market rates. This is because either the projects do not generate sufficient revenue to cover the interest payments of a loan or the risks involved are too high. Grants can operate as risk mitigation instruments making the project possible. In the second case, loans at concessional rates reduce the risk of unsustainable indebtedness in vulnerable developing countries, in particular in already heavily indebted poor countries (HIPCs).

Blending can, due to the grant component, increase the financial leverage effect, i.e. attract more funding to development-oriented projects. This is increased in the LGBFs with combined resources of donors and financiers. In the present context of austerity, blending can increase financial flows for development while limiting the budgetary costs for the donor countries and the European Commission. At the same time the pooling of funds facilitates programme-based approaches and large-scale development programmes that one single donor might not be capable of financing and implementing. However, even if the overall development funding level in a region were not to increase, the coordination achieved by combining the resources of different donors and lenders can lead to increased economies of scale, i.e. focus better the funding on EU development objectives and improve the effectiveness and impact.

From the point of view of the beneficiary, an EU LGBF serves three important needs. First, they make available funds that are mostly not accessible due to lack or imperfections of local financial markets. Second, they put ownership into practice by enabling projects deemed necessary by the beneficiary for its development. Third, they reduce the administrative burden for the beneficiary as it facilitates the negotiation of development projects for the beneficiary countries, which now face a single and large counterpart and common procedures. This means a reduction in transaction costs for the beneficiary.

The enhanced use of loans can assist in increasing financial discipline and ownership compared to exclusively grant receipts. The fact that the beneficiary has to repay the loan and contribute own funds to a project also safeguards the financial sustainability of a project.

Blending, when appropriately calibrated, can ensure that in areas where the repayment capacity exists, loans and grants are optimally used, expanding the financial flows for development while preserving grant funding for regions, countries, sectors or projects where such support is necessary.

Some specific grants can generate re-flows, if used e.g. as risk capital for SMEs – as is the case in the NIF. Those can in principle be redirected to new operations without further commitment of further resources, partially reducing the budgetary costs of donors to the facilities. The LGBFs have very few operations of this kind, but if their number expands, the re-use of re-flows in a revolving fund may need to be clarified.

3.2 Political rationale

The blending of grants and loans has a significant political leverage effect in the EU and in the recipient countries. For the European institutions and the member states it is a tool to increase coordination, collaboration and coherence regarding EU development and external policy objectives and overall EU aid effectiveness.

The combination and coordination of donor grants and lending capacities of European development finance institutions (DFIs) through one blending instrument strongly increases the visibility of EU operations and assists in presenting a common, financially strong and coherent partner for recipient countries. In turn, this increases the influence of the EU on the development strategy of the beneficiary. The reinforced and coherent strategic dialogue between the EU and the beneficiaries when drawing the developing strategies to allocate the EU support, can have a clear influence on structural reform dialogues, for example on economic, financial and political reform. From the beneficiary's point of view, the coordination of EU donors and financial institutions might be considered a drawback. While the beneficiary can participate in the strategic decisions of the facilities and faces less transaction costs, it does increase the influence of the EU on sector policies. For the EU, the LGBFs allow it to some extent to gear the lending activities towards specific areas of interest for the EU and the partners, either through rules on the types of project accepted, or by calibrating the grant size – always based on regional strategies.

Another benefit for lenders and beneficiaries is the impact that grants can have in accelerating project progress (e.g. by an early start of the feasibility study).

The LGBFs also incite financing institutions to collaborate more closely with each other as well as with the European Commission by sharing development expertise, skills, practices and lessons learnt, which increases the overall quality of joint interventions. This closer relationship between financing institutions at the same time encourages innovative ideas to further enhance cooperation and coordination mechanisms on the operational level. The AFD-EIB-KfW Mutual Reliance Initiative (MRI) is a good example of this.[8] By reciprocally delegating project management tasks to one of the three institutions acting as Lead Financier in joint co-financing on the basis of mutually agreed minimum standards, the MRI will support the division of labour between financing institutions on the implementation level.

3.3 The leverage and value added of blending in the blending facilities

The leverage effect of the facilities is highly praised by the European Commission, despite the different definitions used in different facilities.

In the NIF case, leverage is calculated as the level of financing that grant elements have attracted for any kind of grants, technical assistance included. According to the European Commission, the overall financial leverage for the NIF is above 25 times the original investment. The ITF uses more prudent estimates as it does not include technical assistance for a project, but only grants for the investment of the project. For the ITF, it is estimated that each euro of the Trust Fund in grants has attracted €3.6 from the PFG and €9.9 from other sources, thus a total financial leverage of 13.5 times the grant share.

For the WBIF the leverage effect is 44 times the grant element, but using the ITF's definition without TA (technical assistance), the leverage effect is of 7.3 times. The WBIF is dominated by TA, which accounts for 66 out of the 78 projects.

These figures are slightly misleading, as they give little information about additionality, i.e. the difference in the investment value without the LGBFs. Have the LGBFs attracted new funding? This is difficult to test. There is however a need to harmonise the calculation of 'financial leverage' across the facilities, while some estimation of additionality should be undertaken.

Financial leverage is not the only and maybe not the most important impact of the facilities. Evidence suggests that important projects with large impacts have been financed that would not have been possible without the coordination of the financiers. The socio-economic effect on the beneficiaries is expected to be considerably larger. The value of the facilities has been recognised by recipient countries, which have realised the potential and are paying increased attention to them. In terms of coordination, visibility and potentially value added, the blending financial facilities have been a success.

In addition, as mentioned above, the joint action by the European Commission, member state donors, the EIB and participating EBFIs and IFIs increases the influence of the European Union

---

[8] More details on the MRI can be found in Chedanne (2009).

on the development strategies of the beneficiaries and towards other actors. This political leverage is considerable and extends the adoption of European standards of development assistance.

3.4 Potential weaknesses

The blending of loans and grants is not a panacea. As already mentioned, (concessional) loans cannot substitute for grants in all areas. In addition, expanding development funding by increasing the loan element will raise the indebtedness of beneficiary countries. Debt sustainability has to be monitored closely and concessionality adjusted to the risks of unsustainable indebtedness, in particular in the HIPCs. This issue of potential indebtedness of the beneficiary is secured in principle by the requirement to only finance technically and financially sound projects with sufficient revenue potential.

In fact, expanding the use of blended loans, if well managed, allows for a better division of projects into those that can only be financed by grants and those that are bankable. Grants allow the financing of projects that are sub-investment grade, but realisable with the assistance of a grant element, ensuring that grants are not wasted on projects that can benefit from pure loans and that projects do not materialize due to lack of finance.

Concessionality is not difficult to achieve; it simply requires the cost of interest to be lower than the market rate. With a reference discount rate given by the DAC/OECD rules, the grant size for a project loan over 12 years only needs to reach 5%.[9] This is due to the lower interest rates applied today compared to the 1970s.

The problem in the facilities is that the mechanisms do not ensure that the total financial assistance (grant loan) of the facility for a particular project can be registered as ODA. Even if the grant size as part of the financial package complies with the concessionality level required by the OECD DAC for recording the whole operation as ODA, the OECD DAC has a long-standing practice of putting an additional requirement of an explicit interest rate subsidy (IRS). The Commission, however, disputes that this approach is based on the DAC directives. Many non-IRS operations do not channel the entire grant element through the financiers, but some or all may be separately handed to the beneficiary. In those cases, the assistance cannot be counted and the financier's loan may fail to have an element of concessionality that is sufficiently high to qualify as ODA. In addition, the implicit grants of member states embedded into the loans of the financiers are not well accounted for, again underestimating the total level of concessionality in a project.

Those problems need addressing. Nevertheless, it should be noted that the recorded ODA loan component would count as negative ODA when the loan is reimbursed.

Bulow & Rogoff (2005) and Klein & Harford (2005) propose that by increasing the number and size of loans for development may risk introducing a bias to increase the support to middle-

[9] For financial flows to developing countries, only grants and loans with a considerable grant element can be declared as development aid. This is called the level of concessionality and is defined by the Development Assistance Committee (DAC) of the OECD as the level of 'softness' of a credit, that is, the level of savings for the borrower compared to a loan offered at market rate. In general the level of concessionality required is 25% or higher. Concessionality rates may be higher for specific countries, such as LDCs or HIPCs, where concessionality has to reach a minimum of 35%. The discount rate for projects needs to follow the guidelines by the OECD (10%). A second requirement for declaring loans as ODA is that these loans also need to be concessional in character, meaning below the prevailing market rate. In addition, there may be further and eventually stricter criteria from the partner side/IWF. It is important to note that loan repayment and interest will count as negative ODA, thus registering the loan component as ODA is of limited benefit in the longer term.

income countries to the detriment of poorer countries with less capacity to service loans. Nevertheless, the risk is limited in the LGBFs, not only because of the relatively modest share of EU development cooperation channelled through the facilities, but also because mechanisms could be put in place to control this risk at strategic and operational level in collaboration with the beneficiaries. The LGBFs thus offer a solution to this problem rather than exacerbating it. In fact, expanding the use of blended loans, if well managed, allows for a better division of projects into those that can only be financed exclusively by grants and those that are bankable.

Participation in the LGBFs may be hampered by the loss of visibility for individual donors. The LGBFs are to a large extent EU instruments, not belonging to a specific member state. Nevertheless, they enhance the visibility of the EU.

Finally, coordination of EU grants, member state donations and lenders is complex, which can slow down decision-making if the governance structures are not adapted to the task. Hence any operational improvements and a future platform have to ensure a quick and effective decision-making mechanism.

In addition to the financial leverage that can per se be easily quantified, there still is a need to assess the actual political leverage the LGBFs exert through better coordination between the stakeholders involved, the resulting increased effectiveness and subsequently the higher development impact generated. An evaluation in this respect of the EU financing instruments should be carried out in due course.

4. Structure and operations of the EU blending facilities

Depending on the lead DG of the European Commission and the budget, the investment facilities have been developed based on three ‘models’. The majority of LGBFs are chaired at strategic level by the European External Action Service (EEAS) and follow what will be referred to as the ‘NIF model’. Thus LAIF, IFCA and the future AIF are based on the same format, with differences based on regional specificities. The ITF run by DG DEVCO is similarly structured, but it has important operational deviations. The WBIF run by DG ENLARG has a very different structure. The particular nature of the region as potential candidate countries for accession, as well as the special interests of the EU in the Western Balkans, have contributed to the development of considerably different decision-making and operational structures.

This section presents the functioning of the facilities, their similarities and differences. This will be used as a basis to identify additional strategic and coordination needs and propose potential reforms of the system.

4.1 Governance structures of blending facilities

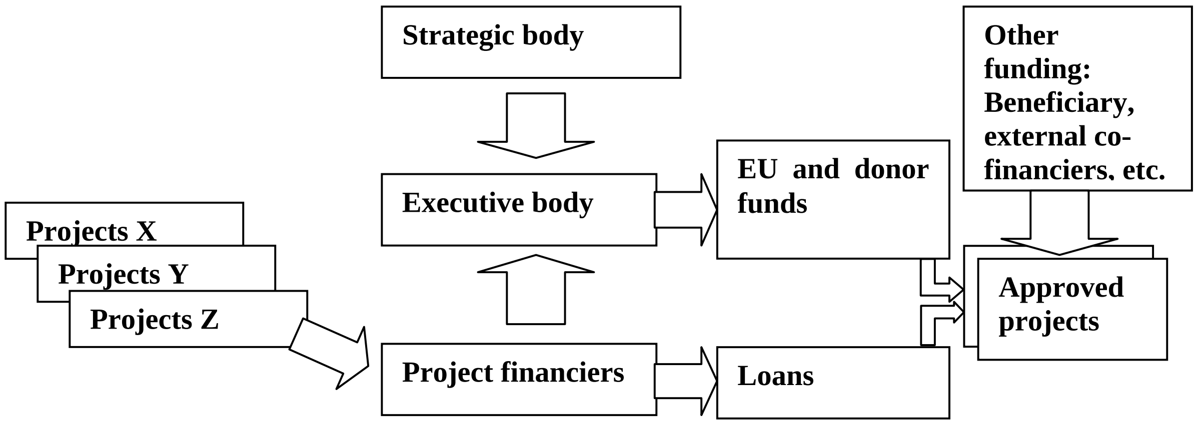
The LGBFs are treated as an additional tool to finance the operations of the European Commission in different geographical areas, with the particularity that grants are combined with other MS grants (in some cases) and with loans from EBFIs and IFIs. There is thus no overarching dedicated structure above the facilities.

It is important to underline that the role of the facilities is not to tell the project financier which projects to finance, but to offer grants to enhance its activities. It is for the financial institutions to propose projects after consultation with the respective partner country/ies. Grants will be offered for areas of specific interest defined in the strategies of each facility based on the regional EU policy. Project financiers will apply for the grants for specific projects, if those are compatible with the eligibility criteria of the grants. The LGBFs are all based on a three-tier structure of governance, with the exception of the WBIF, which has two tiers. Those are:

- A strategic body – strategic board in the NIF/steering committee in ITF and WBIF,
- An executive body – operational board in NIF/executive committee in ITF and
- A financiers group – the Finance Institutions Group (FIG) in the NIF and Project Financiers Group (PFG) in the WBIF and ITF.

The logic is relatively simple. The strategic board sets the strategic goals of the facilities, the operational board decides on the financing of projects which the FIG/PFG presents. Figure 2 shows the process. The strategic board/steering committee decides on the strategy of the blending facility. Project financiers select projects based on guidelines and financial sustainability and propose those to the operational board for approval. Projects that are vetted will then be financed by a blended EU and eventually member state grants and loans by the financiers.

Figure 2. Basic structure of blending facilities



The rules of procedure in the different facilities are described in agreements on the funds. For the ITF and NIF models, the rules are laid down in agreements between the European Commission and the donors, and in the ITF also with the European Investment Bank, as it acts as fund manager (European Commission, 2007 & 2008). For the WBIF, the Terms of Reference of the Joint Grant Facility present the rules, as there is a different structure to the funding sources. The structure and composition of the facilities are presented in Annex 1.

4.1.1 Role of the strategic boards / steering committees

This body has the task to set the overall strategy of the financing facility, meeting generally once a year in a partnership with the beneficiary countries. The strategy for the facilities should be in line with the wider EU policy orientations for the region. Those are:

- For the ITF: EU-Africa Strategic Partnership;
- For the WBIF: EU Pre-Accession Strategy for the Western Balkans for the WBIF;
- For the NIF: Neighbourhood Policy;
- For the LAIF: EU regional strategy for Latin America and the EU-Latin America partnership (“Global Players in Partnership”);
- For the IFCA: EU Regional Strategy for Central Asia (“Strategy for a New Partnership with Central Asia”).

There are marked differences for the WBIF and the ITF concerning the level of participation of beneficiaries compared to the other facilities, but this is due to the different relations between the European Union and the beneficiary countries and the different scope and type of projects financed. The composition of the steering groups is a political decision and is not challenged here. It is important that the steering committee formulates the strategy based on the wider EU development objectives. This is in principle guaranteed by the chairmanship of the European Commission in all facilities.

4.1.2 Role of the executive or operational board

The executive or operational board of the LGBFs are the most important central governing body of the facilities. This body is responsible for the approval of individual grant operations which are presented by the PFG/FIG. Projects are screened to see if those are eligible according to the criteria of the blending facility. The operational boards approve the grants and are thus responsible for the funds.

There are important differences between the LGBFs, not only in the composition of the boards, but also in the eligibility criteria and objectives. Some differences are clearly necessary due to the very different needs of the beneficiaries and the difference in the objectives of the European Union in the regions. Nevertheless, there is a clear demand by the some stakeholders for more coherence between the facilities.

There are specific concerns on the differences in the fund structures. The ITF has a single Trust Fund managed by the EIB and brings together the EDF funds and member state contributions. It is the only facility to do so. For the NIF model, the funds are divided into an EU budget fund and a fund grouping member states' contributions managed by the EIB. For LAIF and IFCA, no trust funds exist. From the point of view of the efficiency of the facilities, the existence of one or two funds does not seem too problematic, although for the efficiency of the operations it is important that the release and management of funds are not unduly complicated. From the point of view of donors and their financiers, it is important that all grants are channelled together through the lead financier, but this generally is not the case. It is important to record the operation as ODA under the concessionality rules, but it also should reduce the burden for the beneficiary, which will only face one donor and one financial agreement.

More controversial is the existence of separate additional grant funds in the WBIF by IFIs (EIB, EBRD and CEB) of €10 million each. In addition the funds are typically only used for lending operations of the three IFIs. There is a need to review and clarify the grant facility access, as the whole idea of the LGBFs is to provide grant facilities to all accredited financiers on an equal footing. In addition the EWBJF (European Western Balkans Joint Fund), which handles the member state contributions, is managed not only by the EIB but also by the EBRD, which also brings added complexity to the operations.

The possibility to amend the financial regulations to allow the Commission to manage trust funds is currently being discussed. Some member states are reticent, as it represents a de facto indirect increase of the EU budget for external action.

Generally, there is a need for transparency of all grant elements, including those often embedded in the EBFIs' loans provided by their national governments. It is important to appropriately record all ODA flows.

4.1.3 Role of the Project Financiers Group/Financial Institutions Group

The role of the PFG/FIG is quite straightforward. As a rule participating financing institutions have to be European development financing institutions, or European financing institutions with a public sector mandate or development agencies. As a general principle, those financing institutions underwent an assessment by the European Commission (DG DEVCO) in order to be eligible to implement European Commission funds. Accreditation is required to allow a financial institution to handle EU grants; it guarantees that the financier's procedures fulfil EU requirements on financial control.

There are interesting exceptions to the rule. In the ITF, the contributing member states can each nominate one financier. Exceptionally, the UK nominated a non-European financier, the AfDB (African Development Bank) as its representative to the PFG. Its membership was agreed due to the important role it plays in the region and the existing collaboration of this multilateral development bank with European banks and member states. In the same facility, the PIDGE, also not an EBFI, was nominated by the Netherlands due to special know-how. In the WBIF, discussions on the inclusion of the World Bank are underway. For the moment it has an observer status and co-finances together with accredited lead financiers.

The composition of the PFG/FIG (see Annex 1) will depend on the number of EBFIs active in the region and specific agreements with some IFIs and regional development banks. The EBRD, CEB and AfDB are members for some of the facilities, due to their importance in the regions and existing collaboration with the EU and member states. Other external financial institutions, public and private, can participate as co-financiers in projects. The eligible financiers put together projects which according to their financial planning require grants to be realisable, to then be presented to the operational board for approval. Projects are based on the strategy of the respective facility, beneficiary needs and preliminary discussions / agreements with partner countries at strategic level.

A central characteristic of the facilities is that the financiers establish one common project pipeline. The facilities are primarily designed to encourage co-financing by more than one financier. In fact, there have been discussions on the need to impose the condition that more than one financier should finance projects in the facilities. As the WBIF evaluation indicates (Stepanek et al., 2010), such a requirement would not be feasible for specific projects (and those recommendations are applicable to all facilities), i.e. small projects, projects in sectors where only one financier is active, projects in regions where very few financiers are active, and generally projects where cooperation between EBFIs or IFIs is not suitable. Thus a strict obligation would be impracticable.

The selection of projects presented to the operational/executive board will rest in the hands of financiers, who will also determine the grant size and type and the complete financial package based on their own financial assessment criteria. Except for the ITF, the European Commission is present at the PFG/FIG and may participate informally in the project selection, e.g. by pre-screening ideas based on national strategies and information from the EU Delegations in beneficiary countries.

The development of the project pipeline is based on a bottom-up approach led by the financiers. This ensures that projects selected for consideration in the financial facilities are financially sound. Financial viability studies and calculation of the grant requirements are best performed by the accredited financial institutions in line with a proper division of labour.

The PFG/FIG is a coordination setting where the accredited financiers can discuss the technical and financial viability of proposed projects, collaboration and the division of tasks between the lead financier and the co-financiers. The concept of lead financier is an important innovation emerging from this collaboration. Under the existing facilities, one institution proposes a project for the account of two or a group of co-financiers, which means that the beneficiary is not facing multiple financiers in a large co-financed project. Only the accredited financial institutions can be lead financiers. Lead financiers are mostly those FIs that allocate the largest share of the loan, but may be based on other criteria, such as expertise in the region or area of intervention. While the obligations of the lead financiers are clear, the facilities do not have a satisfactory mechanism to cover the costs for the lead financiers. Only the NIF model has a clear financial contribution to lead financiers. There is no clear reason why this should not be the case for other facilities.

In WBIF the beneficiaries submit the requests for grants, whereas in NIF and ITF this role is performed by the eligible financiers. The rules for becoming an eligible financier are also different among the three ‘models’.

An example of the increasing donor coordination which sets a precedent for the future of the LGBFs is the Mutual Reliance Initiative (MRI) which the AFD, EIB and KfW are piloting. This initiative aims at recognising each other’s project management procedures, i.e. project appraisal, tendering, due diligence and monitoring procedures, so that the institutions avoid duplication of tasks. This MRI process, if expanded, can considerably facilitate the coordination of financing institutions in blending operations and also other collaborative projects outside the facilities, improving the situation for the beneficiaries by lowering transaction costs.

Expanding the MRI, however, is a complex process. Projects originate from a number of sources; they are presented to the financiers by promoters for consideration. The presentation will need to explain why the projects are consistent with the objectives of the EU development policies and the specific assessment and eligibility criteria of the LGBFs. For each project the financiers will need to assess the grant share required and assess the viability of projects. Technical aspects, standards, procurement rules, level of profitability, credit risk rules and legal aspects need to be followed. Based on this assessment, the financiers may pursue the project and present it to the operational/executive board.

For the WBIF the process in the PFG is different. In the WBIF there are some particular differences, while the financiers are still going to assess the bankability of projects and decide which to bring forward, potential priority projects are registered in a database. Potential projects originate from the NIPACs (National IPA Coordinators) or regional programming bodies. The project database is not only for the WBIF, but represents a list of priorities that may be financed by the WBIF, other IFIs and EBFIs separately, IPA funds or nationally. Financiers cannot propose independent projects to the operational board without a supporting letter by a NIPAC.

4.1.4 Variations in approval procedure

A simplified version of the approval processes was presented above in Figure 2. These are, as already mentioned, not equal in all the facilities.

In the NIF and ITF the procedures are similar. In Figure 3 we can see the difference between them, both in the project preparation and approval process. The European Commission’s presence in the FIG in the NIF as chair means that it performs a preliminary project screening step before the operational board is presented with a project. Another additional difference is the existence of two funds, one for the EU budget grants, another one for the MS donor grants.

For the WBIF a separate description is necessary. Figure 4 presents the WBIF system which clearly has additional features. Projects in the WBIF originate primarily from the NIPACs, but also from regional programming bodies. Again as in NIF, the European Commission’s chairmanship at the level of PFG means that projects are screened by the Commission before they enter the Steering Committee for approval. The WBIF has five grant funds, like the NIF one for the EU budget funds and one for the member state funds, but the IFIs themselves (CEB, EBRD and EIB) provide grants/TA funds of each €10 million. These latter grant provisions are restricted to their own operations and are not open to all accredited financiers. These three institutions also have a separate Joint Lending Facility where they commit the level of funding they are ready to disburse in the facility.

Figure 3. Approval procedures ITF vs. NIF

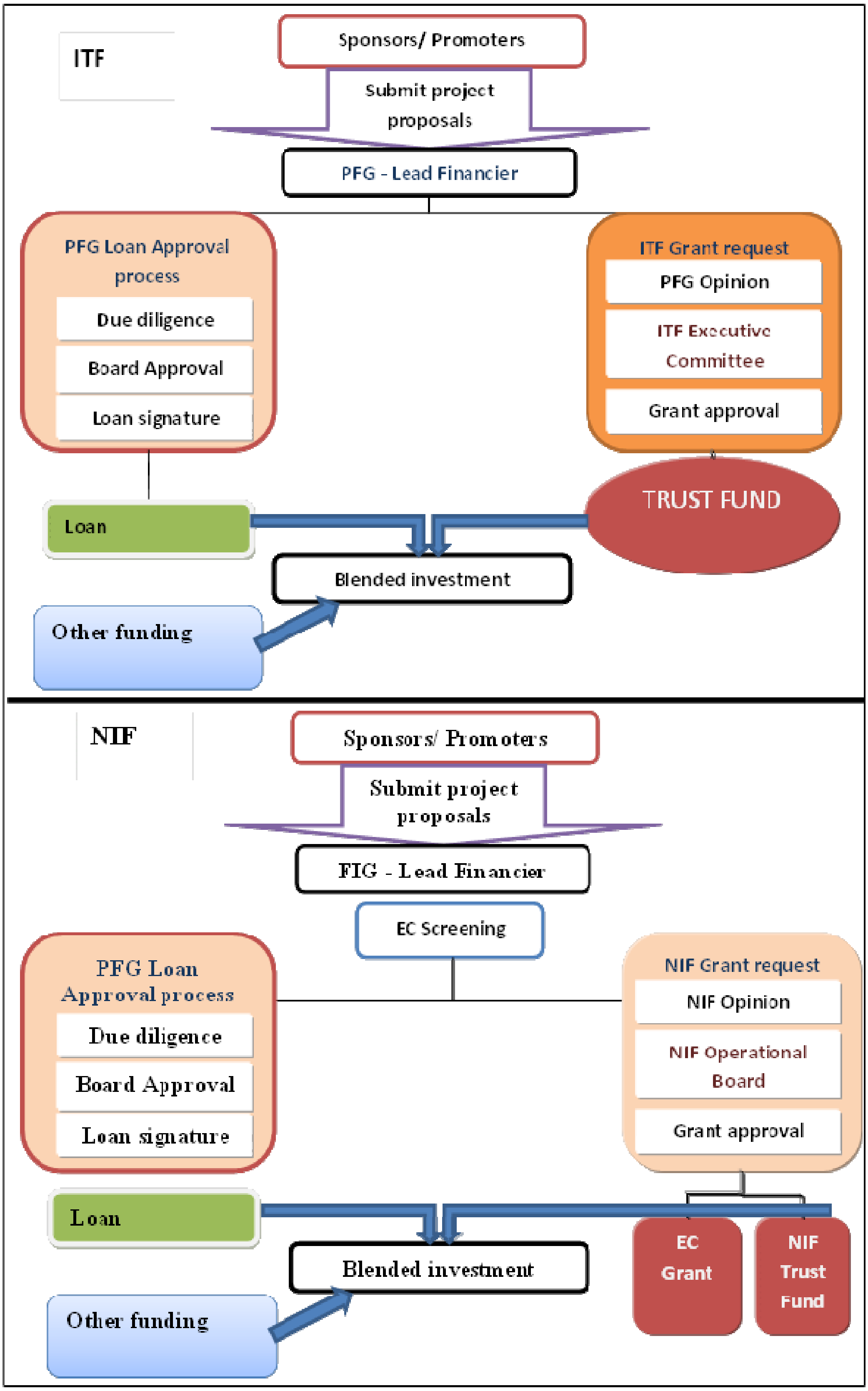
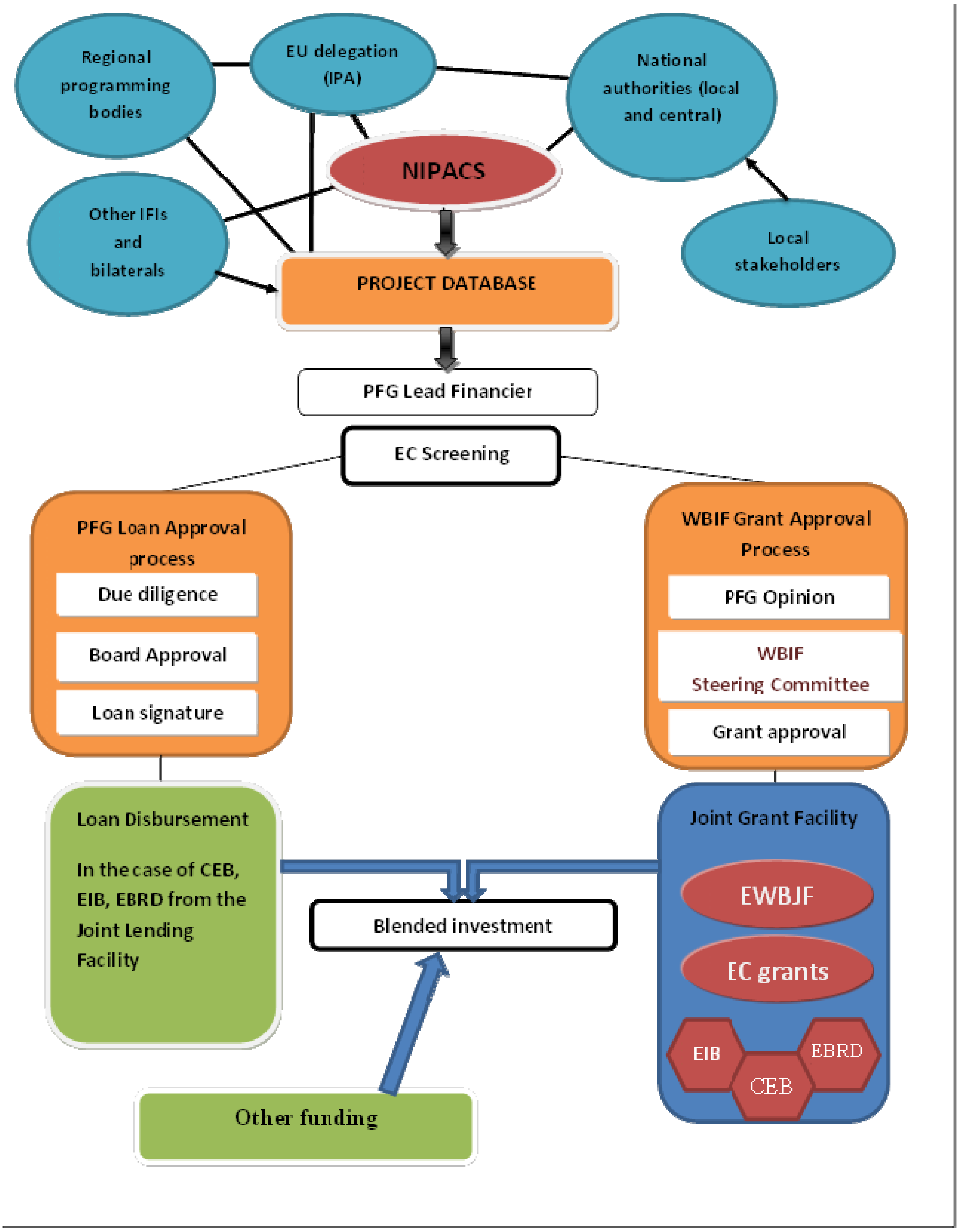


Figure 4. WBIF approval process



4.2 Operations of the EU blending facilities

This section presents an overview of the grant and lending operations in the facilities by sector and shows some examples of the operations of the facilities.

4.2.1 Sectors covered by the facilities and grant distributions

Not all the facilities cover the same type of sectors. It is possible to see a marked difference in the focus of the facilities. The ITF is clearly directed into infrastructure and by mandate of regional relevance, thus large. For the NIF and the Western Balkans, the development strategy of the facilities is more holistic, opening the door to smaller and more local investments, for infrastructure as well and the social and private sectors. The sectors and the financial resources allocated to the different sectors are summarised in Table 2 and Figure 5.

Table 2. Sectors covered by the blending facilities

ITF	NIF	WBIF	LAIF, IFCA
• Energy • Transport (rail, road, air, maritime and inland waterways) • Water • Information technology (including telecommunication s and limited to projects of regional relevance)	• Energy • Transport • Environment with particular focus on climate change and mitigation and adaptation • Private sector support (in particular SMEs)	• Energy • Transport • Environment with particular focus on implementation of the EU's environmental *acquis* • Private sector support (SMEs) • Social projects	• Energy • Transport • Environment with particular focus on climate change and mitigation and adaptation • Infrastructure in basic social services (SMEs) • Private sector support

In addition to the differences in the areas covered, the ITF imposes an additional restriction to the projects. These have to be of regional importance and thus need to benefit more than one country. The strict regional importance requirement is not to be found in the NIF or WBIF. LAIF, IFCA and future AIF have similar scope to the NIF.

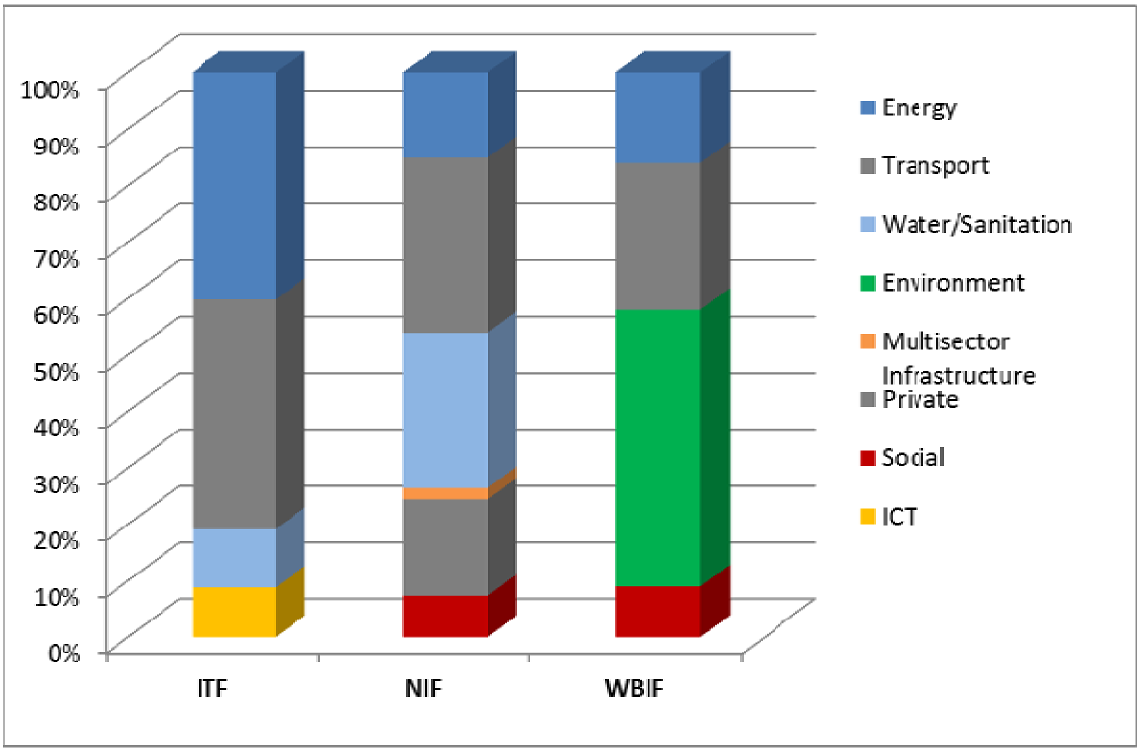
The more restrictive scope of the ITF may require reviewing. It is possible to find a justification for the difference in scope between the ITF and the NIF and WBIF. After all, the Neighbourhood Policy and Western Balkans strategy focuses on increasing the integration of the beneficiaries with the European Union, as prospective members or close economic partners. The differences between the LAIF, IFCA and ITF are much less justifiable.

There are numerous projects in the facilities, but the characteristics vary. The ITF facility is dominated by very large infrastructure focusing on energy, transport and water. Some 38 projects have been approved between 2007 and 2010. A good example of a project financed by various financiers is the Southern Africa Region: Regional Transmission Development Project (CESUL), where a transmission line is being built from Mozambique to neighbouring South Africa to export its electricity. This project, with a cost of €1 billion, received a technical assistance grant of €0.7 million. The loans will be provided by EIB, KfW, AFD and AfDB. In the West Africa Region a port is being financed with an IRS of €6.6 million and a TA grant of €2 million for a total project cost of €121.7 million. The financiers are AFD, EIB and BDEAC (Banque de Développement des Etats de l'Afrique Centrale) and the port will add own funds.

For the NIF, investments can be of regional or local importance, with a strong focus on the water and wastewater treatment, transport and energy. The scope goes beyond infrastructures and covers also the private and social sector, the latter mainly directed to the Eastern Neighbourhood, in particular for SMEs. As an example worth mentioning of a private sector-oriented project, one of the most interesting has been a €10 million contribution for a new window at the European Fund for Southeast Europe (EFSE). With the NIF contribution and further funds from the German Government and the OeEB, EFSE could extend its regional focus to Eastern Europe and offer long-term funding to local financial institutions so that those can provide business loans to micro, small and medium-sized enterprises and housing loans to low-income private households. The scheme has been so successful that it was awarded the first prize in a G-20 ideas competition.

The WBIF finances a wider range of projects compared to the NIF, with a particular focus on preparing those countries for eventual EU membership, thus helping them apply the EU *acquis*, in particular in the environmental area, such as wastewater treatment plants. Other strong focuses of the WBIF are the transport and energy sectors, although a considerable number of social projects have been financed, such as a feasibility study for R&D and teaching facilities in Serbia (grant of €600,000 for a project value of €200 million), health infrastructure, housing programmes, school modernisation, judiciary systems and other infrastructure (such as prisons).

Figure 5. Distribution of grants by sector



Note: Years covered: ITF (2007-2010), NIF (2008-2010) and WBIF (2009-2010).

Presently climate change is being integrated into the facilities, which cannot be just added as another sector, as many investments in energy, water and environment can to a large extent be considered also climate-oriented expenditure. Accounting for climate expenditure is important; the commitment of developed countries to substantially increase their climate spending in developing countries also puts the role of climate change-related projects within the EU regional investment facilities in a new light.

The Cancún Agreements of December 2010 reaffirmed developed countries' commitment to provide some \$30 billion of new and additional fast-start funding for the period 2010-12. Although there should be a balance in the allocation between adaptation and mitigation, adaptation funding should be prioritised for the most vulnerable developing countries. At the same time, the target of mobilising \$100 billion annually by 2020 was recognised as challenging, but feasible. It was agreed that these funds could come from a variety of sources, including public, private, bilateral, multilateral and alternative sources.

The estimation of climate-related expenditures in the facilities will be undertaken using the so-called 'Rio markers' based on the 2002 OECD Development Assistance Committee (DAC) report on aid targeting the objectives of the Rio Conventions (FCCC, CCD, CBD). These markers allow for a differentiation between climate-related funding and funding focused on desertification and biodiversity. They are thus intended to improve the comparability of reported data. Initially, the Rio marker 'climate change' was based solely on mitigation, but in the beginning of 2010 a similar policy marker has been added in order to track committed funds in support of 'climate change adaptation'. Projects can thus be assessed according to their climate change relevance and be 'marked' either with the mitigation marker or the adaptation marker. As shown in Table 3, projects can further be differentiated on the basis of whether they have a 'significant' or a 'principal' climate change objective. Projects with a 'significant' climate change objective are only partly relevant to climate change and a fixed adjustment factor of 40% of their allocated budget is currently used by the European Commission to count towards climate change activities. Projects with a 'principal' climate change objective are fully climate relevant and would not have been funded without the mitigation or adaptation objective. Therefore, 100% of their allocated budgets are counted towards climate change activities.

Table 3. OECD DAC-based methodology to estimate allocated funds to climate change projects

Rio marker 'climate change'	Category	Amount of allocated budget considered
Rio marker 'mitigation'	Rio marker 1: 'significant objective'	40%
	Rio marker 2: 'principal objective'	100%
Rio marker 'adaptation'	Rio marker 1: 'significant objective'	40%
	Rio marker 2: 'principal objective'	100%

Assessing the facilities with the Rio marker system reveals investments worth some €7 billion in climate change-related projects in all countries covered by the facilities between 2007 and 2010. These €7 billion represent about 40% of the facilities' total volume and are split 90% to mitigation projects and only 10% to adaptation projects. The largest contributions to financing low-carbon and climate-resilience projects have been made within the NIF and the ITF, exceeding some €3.5 and €3.1 billion, respectively. This is not surprising, since the NIF and the ITF are the oldest of the existing facilities. In addition, climate-relevant projects worth more than €365 million have been approved in the new LAIF. The EU's grant element in all climate-relevant projects has been about €180 million over the same period, three-quarters of which have been committed to mitigation projects and the other 25% to adaptation projects.

Key domains for mitigating greenhouse gas emissions include the promotion of renewable energy sources and energy efficiency, pollution control, agriculture, forestry, biodiversity and (waste) water management. Examples of adaptation activities include environmental policy and administrative management, environmental research, capacity-building and environmental education, disaster risk reduction and preparedness, rural development and food security, water and sanitation, health, forestry and fishing.

The above figures show that climate change plays a considerable role in the facilities, although efforts seem so far to be largely concentrated on the NIF and the ITF. In addition, there is a clear tendency to finance mitigation projects, a tendency that seems to increase as the ratio between grants and loans (or other financial instruments) declines.

Thus climate change figures will need to be systematically reported in the future for some if not all of the facilities; the method is established and its inclusion is a formality. This point is discussed in section 6, which is dedicated to future changes in the facilities.

4.2.2 Type of grants provided

There are a number of different grant instruments that can potentially be used in the framework of the regional LGBFs. The ECOFIN Council has set up a working group which presented the following grant options a to g in a report on the additionality of grants in the framework of the blending mechanisms (European Commission, 2009):

a) Technical assistance and studies
b) Direct investment grants
c) Conditionality / performance related grants
d) Interest rate subsidies
e) Loan guarantees
f) Structured finance – first loss piece
g) Risk capital
h) Insurance premia

All LGBFs can use technical assistance, investment grants, interest rate subsidies, loan guarantees and insurance premia. The different instruments are not equally applied in practice; this is also because not all LGBFs have the same scope or cover the same areas of intervention.

a) Technical assistance (TA) and studies

TA grants are one of the main instruments in the facilities. They are considered important to improve project preparation and planning, accelerate the start of projects, and ensure sound management as well as the sustainability of the investment. A number of complex projects would most likely never have emerged without TA support. This support is also important to prepare the appropriate financial package which may lead to further grants and loan-blended support and speed up the start of projects.

b) Direct investment grants

Investment grants can be used to cover specific parts of a project, which can be highlighted as items needing grant support. It helps to reduce the overall cost of a project in a transparent manner. Grants can be used in particular for specific social or environmental aspects of projects that are necessary for the success of a project. Investment grants can be used upfront to accelerate projects giving them a kick-start, or at closure so as an incentive to the beneficiary to keep to the loan contract terms. The format of a grant should depend on the project.

c) Conditionality / performance-based grants

Those are grants linked to conditionalities, such as Output Based Aid as defined for ODA. *Ex-ante* conditions are defined which the beneficiary needs to fulfil to obtain the grant or grant elements based on service level or performance targets. This enhances the efficiency of project implementation and increases the alignment of the interests of the beneficiaries with the development objectives pursued by the donors. Those conditionalities are particularly important in countries where governance is weak.

d) Interest rate subsidies

Interest rate subsidies (IRS) help bring down the costs of borrowing, making projects more bankable and less onerous. The overall effect is not much different from investment grants, but can be less visible than an investment grant. Only the ITF and the WBIF currently use interest rate subsidies while the NIF, LAIF and IFCA do not apply them in practice. The IRS can play an important role to make the financing terms of development options favoured by donors more attractive than the alternatives. This can be important in specific areas, such as in the case of energy, where under normal loan conditions 'dirtier technologies' are more advantageous.

In theoretical terms investment grants or interest rate subsidies are equivalent in value, but the impact on implementation is different, as the motivation by the beneficiaries can be affected. The IRS have the advantage to the beneficiary that there is one single contract and contract partner, hence reducing the transaction costs on the partners' side. The use of interest rates rather than investment grants will depend on the project and the potential market distortions.

e) Loan guarantees

Loan guarantees offer the lender a protection in case of default. Loan guarantees are an insurance of importance in underdeveloped markets. It is a risk-sharing mechanism, where the LGBFs offer a protection with grant funding serving as guarantee. It also reduces the risk of a project and thus the interest rate charged to the borrower. Loan guarantees can be combined with other kinds of grants, such as investment grants. Only in case of default do loan guarantees lead to real disbursements. Due to this reason, they can contribute to increase the development financing volumes without reducing scarce EU budget resources to the same extent.

f) First loss financing

First loss financing is similar to a guarantee, but is used to invest in the highest-risk tranche of a project or portfolio of projects to leverage funding from IFIs, EBFIs and private banks.

g) Risk capital

Risk capital grants are equity or quasi-equity investments for high-risk projects. The projects are by nature profitable if successful, but no investor or financier is ready to participate in developing the project due to its risk level. Risk capital can be an important tool for development projects, because underdeveloped markets in developing countries require higher risk premia than developed markets. Risk capital can be offered for particular risks in a project or *pari passu* for the whole project,[10] i.e. where the financiers and investors are willing to bear the risks but only up to a specific level. The difficulty when offering risk capital is to determine the right level of support and avoid excessive risk coverage, biasing investment incentives, and to define the use for the profits and proceeds from the sale of investments in funds/equity. The best areas for intervention with risk capital operations are investments in SMEs and for infrastructure.

h) Insurance premia

Curiously absent from the Working Group's report on blending were the insurance premia, which can play an important role. These provide initial insurance coverage offering a risk-mitigation necessary to launch projects.

---

[10] Risks are only partially covered by the grant and the remaining risk is adequately shared between all the financiers.

Another grant instrument that can play an important role in countries with more volatile markets and that is not treated by the Working Group's report is risk coverage for foreign currency volatility. Risk coverage tends to focus on political risk, but the realisation of large, long-term projects can easily be jeopardised by exchange rate fluctuations. Risk instruments will have to be further developed if a scaling up of blending is aimed for. EBFIs in particular will require additional risk cover to expand their project pipeline.

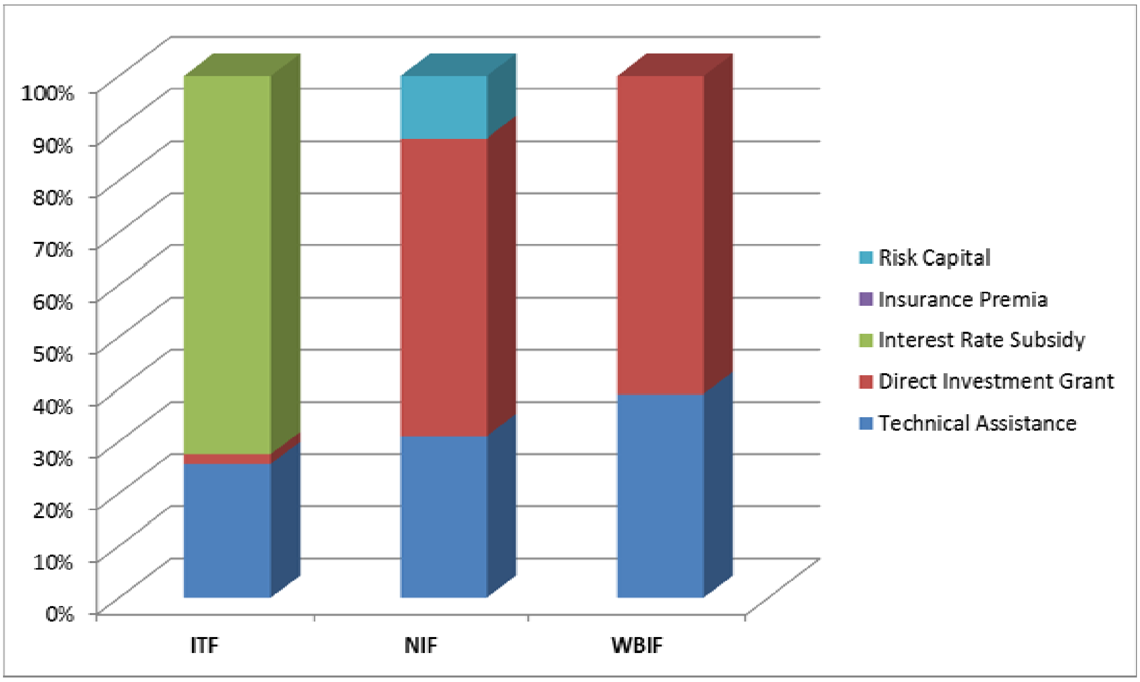
From the large palette of grant instruments that have been identified as potentially important for the LGBFs, only five are effectively permitted in the facilities (Table 4).

Table 4. Grant instruments available in the blending facilities

ITF	NIF	WBIF	LAIF, IFCA
• Technical assistance • Direct investment grants • Interest rate subsidies • Insurance premia	• Technical assistance • Direct investment grants • Interest rate subsidies • Risk capital	• Technical assistance • Direct investment grants • Incentive payments to financial intermediaries (risk capital) • Interest rate subsidies • Insurance premia	• Technical assistance • Direct investment grants • Loan guarantee cost • Interest rate subsidies • Risk capital

The type of grants used in the facilities to date varies considerably amongst the facilities as seen in Figure 6. This is due to the strategy for the regions and the type of projects selected. It is interesting to note how some grant types have not been used at all in the facilities

Figure 6. Types of grant by facility, % usage



Note: Years shown: ITF (2007-2010), NIF (2010) and WBIF (2009-2010).

IRS are the main grant element in the ITF, which is understandable given the mandate of the facility to concentrate on projects of regional (i.e. cross-border) importance, which are in general large infrastructure projects in the areas of water, energy and transport. The IRS are deemed appropriate by the financiers in poor regions where financial markets are weak. This mandate limitation of the ITF also may explain the lower levels of grants in the ITF compared to the NIF, which the ODI (Gavas et al., 2011) study considered surprising. NIF focuses on a wider range of projects compared to ITF, including social projects, which are financially less bankable.

It is important to point out that financiers do not have equal access to all grant instruments; this is the case for example of IRS in the WBIF, where only the IFIs can use them.

5. Improving the EU blending facilities

The LGBFs of the EU are overall very successful in orienting the actions of financial institutions in the regions towards EU development objectives and leveraging large sums of funding, while lowering transaction costs and creating a higher level of ownership by beneficiary countries. The instruments are still new and their performance is commendable. Such success is based on the ability of the LGBFs to best combine the existing expertise of financial institutions in the regions with EU development policies and finance, as well as drawing the regional authorities into the strategic decision-making. Much of the benefits also emerge from the quality of project appraisal and management from the financial institutions.

It is thus important to point out that any changes in structure, governance and procedures should be attentive not to harm, but to help the facilities; much of their strength comes from their flexibility. This is why this section starts with the features that need to remain unchanged. Nevertheless, there is a need to improve some of the coordinating structures and procedures to facilitate the operations of the blending operations.

5.1 Strengths of the blending facilities

By combining funds from the EU budget with grants of member states and opening the facilities to a number of financial institutions, the EU LGBFs have effectively enhanced aid effectiveness in practice. There is little doubt that this unprecedented level of collaboration between the European Commission, the member states and the financial institutions has led to better development strategies and projects, while increasing the dialogue between all stakeholders, including beneficiaries. The benefits go beyond the facilities themselves, as enhanced collaboration affects the coordination of other investment outside the LGBFs. Transparency and coherence increase in general. The participation of co-financiers of other IFIs also improves coherence of actions in the regions where the facilities are active.

Overall, the design of the facilities has positively affected the quality of interventions. This is facilitated, on the one hand, due to the existence of regional strategy mechanisms for the facilities. On the other hand, the three-tier governance structure is considered by most stakeholders as positive, if not essential, separating strategy, executive decisions and technical preparation. It puts the right expertise at the correct level of decision-making ensuring a separation of powers and responsibilities. The partnership approach at strategic level in the steering committees with the beneficiaries is very important, giving the beneficiary countries a feeling of ownership with the strategy and helping them also consider what they could bring as ideas for projects to the financiers.

The executive body, which includes all the member states, is an important organ that ensures control over the use of the funds. Stakeholders consider that the participation of member states in decision-making alongside the European Commission increases the quality of the selection process. It is important nevertheless that voting rights in the executive board are limited to donors of a certain importance to avoid free-riding, i.e. undue influence without real contribution. The present structure of the executive/operational board of the NIF (and similar structures) and ITF is appropriate.

The WBIF has a combined strategic and executive board, but this is due to the fact that the Western Balkans is composed of countries where the EU has a strong influence and where a partnership relationship is being built. Those countries also benefit from Instrument for Pre-Accession Assistance (IPA) funds, which are EU funds but with decentralised management, at least in the accession countries (IPA funds in pre-accession countries are managed centrally). The WBIF is very particular and needs to be seen as a special case, as the level of integration of the region into EU structures is high; this does not exonerate it, however, from recommendations to make it more efficient and effective.

5.2 Areas requiring improvement

Despite the successes of the LGBFs, there are specific areas of concern due to a lack of coherence between the facilities, which have developed independent approaches to the blending systems. Some differences are based on needs on the ground, others are less justifiable. There is a perceived need for a certain kind of umbrella structure, which could – in view of the 'Camdessus report' on the EIB's external mandate – be a platform model as one option to improve the rationale of the blending mechanism system. What should such a platform provide? It should present a set of ground rules to be followed by the LGBFs and the stakeholders participating in them.

By drawing a list of fundamental aspects the blending instruments require and contrasting them to the present situation, the following points in the facilities are considered to need improvements:

a) Expanding the grant instruments
b) Clarifying the determination of the grant size
c) Allocation of grants
d) Introducing climate change in the facilities
e) Clarifying the steering role of the European Commission in the FIG/PFG
f) Minimum standards and mutual recognition and
g) Better coordination across blending facilities.

5.2.1 Expanding the grant instruments

Two of the most important questions for the LGBFs are which kind of grant instrument to use and how much of the investment should be covered by the grant. At the moment, the type of grant used and its size will depend on the possibilities offered by the LGBFs and the assessment of the financiers. In all facilities, the choice is relatively open within the permitted tools available, but the stakeholders are not unanimous on the kind of grants needed.

The EBFIs consider that they have strict financial criteria which guarantee that the grant share and the grant type are appropriate for the projects. This, however, is difficult to assess and is also questioned in the ODI study (Gavas et al., 2011). Nevertheless, the European Commission does require the financial institutions to present a justification for the need of a grant element and the kind of grant requested (project fiche). The guidelines give rules regarding the information to be supplied, as shown in the selection criteria for NIF intervention presented in Annex 2, but those are rather open to interpretation. The European Commission's own method to reassess the grant needs of projects proposed has been called into question by some financiers and viewed as unclear and following a 'rule of thumb' approach.

There are clear differences of opinion between the European Commission and financiers on which grant instruments should be eligible. According to financiers, the kind of grant to be used should depend on the specific needs of the projects and not determined by decree. All of the facilities should offer a wide palette of grant instruments, as listed in point 4.2., which were proposed by the Working Group set up by ECOFIN in 2009.

Of course, the wider the palette of options, the more difficult it is for the European Commission to monitor. There is a concern of the European Commission that some types of grants are less visible and it therefore favours TA or investment grants. Visibility of EU actions is valuable for the EU. However, this is not an aid effectiveness consideration and thus restricting the palette of options based on these grounds is not defensible. Transparency can be achieved by imposing a unified presentation for all projects under the facility, as is done for the ITF. Similarly, member states can feel discouraged from participating, as their contribution is less visible in the blending instrument; again, these are no aid-effectiveness considerations and while some form of visibility may be considered, e.g. identifying major donors better, they should not be the reason for restricting grant instruments.

The palette of possible grant types should be expanded, while concerns on the right choice of instrument should be based on objective and verifiable criteria. This is the reason why financiers could provide the information listed in Annex 3[11] in a standard form to enable the European Commission to better assess the adequacy of the financiers' grant requests, the depth and detail of the information should reflect the size of the project in line with the EU's proportionality principle. This template was proposed by the ODI (Gavas et al.,2011). Such a template should be prepared and discussed by the European Commission in collaboration with EBFIs and IFIs. There may be a need for a more structured presence of European Commission financial specialists to assess the technical aspects and grant requests in the facilities. Seconded experts of the EBFIs and IFIs are already joining a DG DEVCO team for the facilities run by this DG, but the same standards should be applied in all facilities.

One key area of disagreement between financiers and the European Commission is the use of interest rate subsidies. Financiers find them straightforward and useful, while the European Commission finds the justification for their use questionable. There are concerns that the interest rate subsidies are distortive to the economy. The need for such subsidies has often been questioned, in particular the justification for the level requested. In practice interest rates subsidies have been used mainly in the ITF where the local financial markets are underdeveloped; thus risks of distortions there are very low. When used in markets with a functioning commercial banking system, projects using investment grants could be more appropriate as it encourages the participation of local financial institutions. The grant makes the project more attractive to all financiers. There is some work needed to clarify the situation for those kinds of grants, as the concerns and objectives of financiers and of the European Commission diverge. Interest rate subsidies are very simple to administer for financiers and partner countries, and grants accrue directly to them, thus a bias in favour of using them is present.

From the discussions with stakeholders, one can arrive at the conclusion that there is a need for better justification from the financiers and/or higher expertise on the executive board to evaluate the grant requests if there are specific concerns. Based on aid effectiveness criteria alone, the wider the palette of grants, the better. What seem to be shortcomings are transparency and expertise.

[11] The template was prepared by ODI (2011).

5.2.2 Clarifying grant size

At present there are no clear guidelines on grant size. In the 2007 Agreement constituting the implementation rules of the ITF, the operational body (executive board) is instructed to ensure that the grants awarded are not absorbed by only a very few projects. There are no specific further requirements. For the NIF, the only initially visible criterion spelled out was a preference for operations that fulfil eligibility for ODA concessionality. However, this requirement cannot be found in the NIF Annual Action Programmes for 2010.[12] The ODA concessionality preference was never included in the ITF Trust Fund rules or in the WBIF.

The WBIF specifically requests a justification for the grant size and an analysis of the leverage ratio, but no clear guidelines are presented. Nevertheless, the financiers still need to justify their choice and, due to the limited fund availability, most projects are only covering TA.

Thus, similarly to the grant type, there seems to be some concern over the justification for grant sizes. The determination of the grant size should be based on two criteria:

1. The required level of grant necessary to make an investment take place, adequately justified, and
2. Reaching the desired level of concessionality.

These requirements are often incompatible, but will need case-by-case justification. From a policy point of view, reaching the concessionality level is justifiable, as the pressure to increase ODA increases on member states.

In terms of concessionality, a problem in the facilities is how to account for the ODA in blended loans; the form in which the loan is packaged with the grants needs to be reviewed to be able to declare the loan as ODA. It is also important to have clarity on the level of concessionality of the loans themselves. The EBFIs often have a grant level embedded in the loan itself. Ideally, the level of concessionality of the whole project should be assessed, with a mechanism to allocate the shares to member states based on their contribution to the grant and loans. Separate agreements with beneficiaries on the loan and grant should be avoided to prevent having a project that cannot be declared as ODA, despite a sufficient overall subsidy.

From the point of view of additionality, it is crucial to ensure that the grant element is essential for a project to exist. It is difficult to ascertain if a project would or would not have taken place under commercial market conditions. In the ITF, for projects of regional importance it is possible to say that there is a very high likelihood that without grants these would never have taken place. The risk levels and size of the project indicate that the requests for grants by financiers can be justified. The same is not so clear for the NIF and WBIF. The larger number of projects, the existence of a commercial banking system and the more varied nature of projects make it difficult to substantiate that all grants were justifiable. Grants make projects more concessional and allow non-participating financiers to be crowded out, thus there is a certain risk. Nevertheless, compared to operations within the EU by the structural funds and the kind of blended loans they promote, the level of grants in the facilities is modest. The facilities may actually help in separating those projects that can be financed largely by a loan from those that require grants. The EU has tended to underutilise the lending possibilities, particularly in infrastructure development.

We can conclude that guidelines on basic principles to follow should be provided. One possibility is to introduce higher requirements for the approval of blending requests with

[12] The 2010 Annual Action Programmes and Fiches for the EU development policy can be found on the Commission's website (http://ec.europa.eu/europeaid/work/ap/aap/2010_en.htm).

important grant shares over specific percentages for the total investment cost. It would also be reasonable to impose a grant share ceiling for the LGBFs. Some requirements could be imposed on the overall leverage ratio, such as, for example, a minimum leverage ratio of 1 to 3, excluding TA. Nevertheless, those rules should be flexible or differentiate between the sectors, requiring for example lower leverage in the environmental sector, and type of countries (middle-income vs low-income).

There is moreover a need to harmonise the calculation of 'financial leverage' across the facilities, while some estimation of additionality should be undertaken.

5.2.3 Allocation of grants based on priorities

There is a perceived need for the EU to give a clearer view of its priorities for funding, especially if the blending instruments increase in size. There should be more predictability for participating financiers on grant levels in the future and by priority if necessary. The priorities should be decided in the steering committee. A large level of flexibility and a non-allocated grant element need to stay, not to miss the certain good projects for lack of flexibility.

At the moment in some facilities, there is a feeling that the European Commission has an internal objective that it imposes without transparency in the financiers' groups where it plays an active role. Some clarity should be created. Either there is such a preference and it should be stated in the documents, or there is none, and the Commission only assesses projects on the basis of financial merit.

Another important new area for the budget is climate change. The EU is under international pressure to increase the investments in the area of climate change and this has created pressure to integrate this priority into the facilities.

5.2.4 Creation of a climate change window

Section 4.2.1 introduced the need to add climate change into the facilities. This is important, as the visibility of existing climate-related commitments and projects needs to be increased as an important step towards attracting larger financial volumes. Two options have been proposed, namely the creation of a separate 'Climate Change Facility', a thematic facility that would exist separate from the existing regional facilities, and the integration of a 'Climate Change Window' within (each of) the existing facilities. The first option, however, poses a number of problems for its implementation. For example, a separate 'Climate Change Facility' (CCF) would complicate the situation of beneficiary countries, which would have to deal with two facilities (i.e. regional or thematic) instead of just one. This would be especially problematic for projects that only have a 'significant' climate change objective (Rio marker 1, see above) and that are thus per se not clearly eligible for a potential CCF. Similarly, if not set up correctly, there may be conflicts between the regional development strategies forming the base for financial contributions within the regional investment facilities and the potentially diverging strategy of a proposed horizontal facility like the CCF. Also, an additional facility would entail additional administrative and management costs, which could be avoided by working within the existing structures. A separate climate facility is thus not recommended.

A more practicable way to proceed seems to be the integration of a 'Climate Change Window' (CCW) into each of the existing regional facilities, as proposed by the European Commission in November 2010 and now being introduced for the NIF, LAIF and IFCA, with DG CLIMA co-chairing the CCW portion of the facilities. It is appropriate to extend it to all facilities, for reasons of coherence and the needs of the EU to estimate its investment in climate change mitigation and adaptation.

The proposed CCWs thus ensure better tracking and visibility of climate actions within the investment facilities and may encourage EU member states to add funds to the investment facilities, especially earmarked for the CCWs.

With the introduction of the CCWs, there should also be a discussion on whether there is a need for a quota for adaptation projects, in order to raise their share in total project financing. The Copenhagen Accord (2009) and Cancún Agreements (2010) call for balanced support of mitigation and adaptation projects. This question is of particular relevance, because from a development policy point of view, adaptation to climate change should certainly be prioritised in regions where the effects of global warming might be the most severe and where the vulnerability of the population is the highest. However, there are different views about whether blending is the right approach to address adaptation in developing countries. A key argument points to the fact that it is generally developed countries that are historically responsible for climate change and thus also largely for the financial implications of the remedies. From this point of view, the proper instrument for adaptation projects in developing countries would be grants, while loan money entailing potential interest rate payments would be hard to justify. In the facilities, there seems to be a 'natural' tendency towards mitigation projects, because they are more profitable and bankable and can thus achieve more financial leverage. Adaptation projects are characterised by higher grant elements to compensate for the lower profitability and leverage. A quota for adaptation projects would thus require an increase in the amount of grants, which might be used up faster to the detriment of other (mitigation) projects. Similarly, such a quota would decrease the flexibility of the project selection, directing financial flows to less financially attractive projects. In conclusion, there seems to be a case to include only those adaptation projects in the facilities that can achieve similar profitability and leverage rates to mitigation projects. While it would not be wise to exclude adaptation from the facilities, there are good reasons why such projects should be addressed within other financial frameworks mainly using grants. A quota for adaptation projects is thus not recommended, although an overall quota for the share of all climate projects within a facility could be taken into account.

Finally, there is a need for a unified approach to the Rio markers across all EU donor countries. This especially requires agreement on the amount of allocated budget considered for mitigation and adaptation projects marked with the Rio marker 1. For example, Germany currently considers an adjustment factor of 50%, while the European Commission only considers 40%. Under the commitments of developed countries for global climate change finance, there is an interest to take a higher share because this raises actual climate contributions without increasing financial flows. On the other hand, the share used for Rio marker 1 projects should reflect the average of the 'realistic' contribution of such projects to climate change objectives. This share is difficult to determine, especially for adaptation projects. In its broadest sense, the fight against poverty – and thus every development project – is always an effort to increase the local population's abilities to cope with vulnerability and thus also with climate extremes. However, in order to get a meaningful collection of projects, financial reporting under the CCWs should periodically revisit the adjustment factor of Rio marker 1 projects, in order to reflect the changing realities of projects financed in developing countries under the investment facilities.

Thus climate change figures will need to be systematically reported in the future for some if not all of the facilities, the method is established and its inclusion would be a mere formality.

5.2.5 Clarifying the steering role of the European Commission at the PFG/FIG

Except for the ITF, the European Commission chairs the PFG/FIG, which means that in those facilities the European Commission has the ability to gear the choices of financiers. Many financiers tend to view the facilities as an instrument of financial coordination, to increase the bankability of projects, which should be selected largely on their financial merits.

But the European Commission has an important role to play in the FIG/PFG, as it pre-screens the technical viability of projects through the EU Delegations and line DGs. It helps to clarify the regional strategy in the project selection criteria and finally fosters collaboration between the financial institutions. Generally, with some exceptions, the Commission's presence in the PFG/FIG is considered positive.

Nevertheless, most financiers interviewed considered that the European Commission's intervention in the NIF and WBIF at the level of project financiers was too opaque. The Commission is perceived as arbitrarily rejecting projects or questioning and altering the rates and delivery of grant financing without formal justification. The present working method is seen as detrimental to the need to determine grant mechanisms and levels according to sound financial criteria. There is a concern that eventually pressure is further exerted on financiers to use financially unsound blending levels to fit political objectives or to distribute grants with thematic weights.

There is a need to clarify the role of the Commission in the financiers' groups and to justify why there is a different presence of the Commission in the NIF model and WBIF compared to the ITF. The LGBFs are an extended arm of EU policy and thus there is a justified role of the Commission to screen projects and facilitate project preparation at the level of financiers, but it has to operate under clearer rules and justify its decisions.

5.2.6 Minimum standards and mutual recognition

Mutual recognition of procedures of financiers is important. In a blended facility with lead financiers, it is important to establish minimum standards followed by all accredited financiers so that one can take the lead while the others co-finance in silent partnership. Obligations on monitoring and management as well as procurement rules should all be compatible. The beneficiaries should if possible face only one counterpart per project and one fund, regardless of the arrangements within the facilities.

The Mutual Reliance Initiative by the AFD, EIB and KfW on mutual recognition of procedures allows the banks to operate jointly more smoothly. This initiative is not only valid for the LGBFs but also for collaboration outside those institutions. It would be important that the work is continued to allow the mutual recognition between all IFIs and EBFIs involved. This cannot be imposed but can be promoted and facilitated.

Mutual recognition requires a high level of compatibility in standards, and poses some serious questions on the accreditation criteria for financiers. The European Commission (2009) document on blending states that membership of the financiers' group should be limited to EBFIs, and, on an exceptional basis, to member state development agencies and/or development financial institutions with a majority of capital owned by member states. Third party access to projects co-financing with the facilities was in theory to be limited as co-financiers of projects led by an accredited financial institution. In practice there seems to be rather different practice in the facilities. In the ITF, the African Development Bank (AfDB) is exceptionally an eligible financial institution for example. The WBIF review (Stepanek et al., 2010) proposes to have the World Bank as a full member with the same rights and obligations as the EIB, EBRD or CEB.

The presence of the EBRD (and the potential presence of the World Bank) is also bringing some concerns. While a crucial partner in the NIF, IFCA and WBIF, this institution does not follow the same rules that EBFIs or the EIB have to follow, for example on procurement.

While openness of the facilities is per se not to be discouraged, the rules and obligation of members of the financiers' groups require clarification and some common standards. The objective is to have financiers that are on an equal footing, in rights as well as obligations. This is also a prerequisite for the expansion of mutual reliance across financiers.

The way the lead financier is remunerated for its administrative costs also varies across the EU facilities. These differences are not justifiable and should be corrected; the absence of clear rules on remuneration also creates an indirect barrier for smaller financiers to take the lead in projects.

Standards of monitoring and evaluation are not well consistently set for the facilities. It is important that the projects are monitored carefully on their delivery, not only for the loan recovery. Given the existence of a grant element, impact evaluations should be performed as is the case for other grant-supported activities in the EU. The lead financier is required to do the monitoring and reporting if he manages grants offered by the European Commission.

Since procedures have been assessed for financiers' accreditation, the European Commission should accept the lead financiers' standards as long as they are compatible with EU reporting obligations given by the financial regulations

5.2.7 Better coordination across blending facilities

While flexibility and blending mechanism differentiation is necessary to ensure the LGBFs are appropriately targeting needs in the regions where they operate, there is a need to preserve a minimum level of common standards and procedures. Differences in the fees of the financiers, varying reporting standards, different definitions on leverage, different quality of support structures (secretariat), differing rules on access to grants, different trust fund management, etc., are often not justifiable or clearly justified.

It is important that the different DGs involved together with the financiers and donors conduct regular reviews of the mechanisms and structures in place and compare operations and to exchange lessons. A working group with representatives from all DGs of the European Commission involved, the financial institutions and donors should regularly review their performance and discuss operational issues. This working group could be responsible to set up evaluations every 3 to 5 years of the LGBFs. The presence of all financiers in the working group would also promote the expansion of mutual reliance.

6. Concluding remarks and the way forward

In view of the experiences and lessons learnt so far, the EU LGBFs can be assessed as an overall successful innovation, which has positively contributed to increase the quantity (financial volumes) and quality (aid effectiveness) of EU development cooperation. This promising unique approach should be expanded in the future and could even be a model for other development actors to emulate. In general the organisational set-up and operations of the facilities have proven to be rational and functional. Their success factor is their flexibility to respond to the needs of partners and the requirements of EU development policy and objectives.

However, this review reveals inconsistencies and weaknesses in the operations of the blending facilities and there is still substantial room for improvement which could be achieved if the aforementioned recommendations were considered.

The report does not find that there is a need to set up any new comprehensive new mechanism for the medium term, but in order to remedy the existing weaknesses, the facilities require an improved coordinating and facilitating structure which should assist them in elaborating minimum principles, as mentioned in the report. This should be done in a lean and efficient way by the European Commission, avoiding excessive administrative burdens. Relevant stakeholders (European Commission, member states and European bi- and multilateral and financial institutions) should look into that option when discussing the future of EU blending and an eventual EU platform.

An in-depth evaluation regarding the progress of the improved LGBFs should be carried out after a certain period of time (5-6 years) to assess whether the existing models could even be a feasible long-term solution. In this context especially the actual qualitative impact of the LGBFs should be further analysed. A first mid-term evaluation of the ITF has recently been launched and will undoubtedly provide important insights for the future.

In view of the upcoming negotiations on the EU's Multiannual Financial Framework, it is important that the blending facilities are appropriately funded. The allocation to the facilities should increase, not only to expand the existing operations, but to appropriately finance the new blending facilities (the LAIF, IFCA and the forthcoming AIF) and to expand climate finance. For the latter it is important to take into consideration that in the area of adaptation, the grant share will likely need to be more important compared to other investments.

References

Bulow, J. and K. Rogoff (2005), "Grants versus Loans for Development Banks", paper presented to the American Economic Association Meeting, Philadelphia, 7 January.

Chedanne, P. (2009), "Mutual Reliance Initiative AFD – KfW – EIB", presentation, Brussels, 16 October.

European Commission (2007), Communication from the Commission to the Council and the European Parliament entitled "EU Code of Conduct on Division of Labour in Development Policy" COM(2007) 72 final, Brussels, 28 February

______ (2009), "Working Group on the Additionality of Grants in the Framework of Blending Mechanisms – Final Report", Brussels, 18 December.

______ (2011), "NIF Neighbourhood Investment facility, Operational Annual report 2010", European Commission, Brussels.

______ (2010), "WBIF Western Balkans Investment Framework – 2010 Annual Report", December, Brussels

European Investment Bank (EIB) (2010a), "European Investment Bank's external mandate 2007-2013 Mid-Term Review – Report and recommendations of the Steering Committee of wise persons", Luxembourg, February.

______ (2010b), "EU-Africa Infrastructure Trust Fund (ITF) – Summary", presentation prepared by the ITF Secretariat, Luxembourg.

Gavas, Mikaela, Matthew Geddes, Isabella Massa and Dirk Willem te Velde (2011), *EU Blending Facilities: Implications for Future Governance Options*, Report, Overseas Development Institute (ODI), London, January.

Klein, M. and T. Harford (2005), "Grants or Loans? Development Finance and Incentive Effects", Note No. 287, World Bank, Washington, D.C., March.

Organisation for Economic Cooperation and Development (OECD) (2008), "The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action", OECD, Paris.

Stepanek, P., C. Gofas, M. Cingolani, E. Göksu and L. Herrera (2010), "Review of the Western Balkans Investment Framework", European Investment Bank, Luxembourg, 2 December.

Annex 1. Governance of Blending Facilities

<table>
<tr><th></th><th>ITF</th><th>NIF, LAIF, IFCA</th><th>WBIF</th></tr>
<tr><td>Strategic Board or Steering Committee</td><td>Steering Committee
Co-chaired by the EC (DG DEVCO) and the African Union Commission. It is composed of all member states, the EC, the EIB, 29 African Members (the members of the conference bureau - Transport, energy & ICT (19 African states), the Regional Economic Communities, the Economic Commission for Africa, the AfDB, the NEPAD and the African Union Commission). EU Finance institutions and international Development Agencies attend the meeting as observers. Administrative support is financed by the EDF budget for technical assistance.</td><td>Strategic Board
Chaired by the EC (EEAS) and composed of all member states. Beneficiary countries and finance institutions attend meeting as observers. The secretariat is handled by EEAS.</td><td rowspan="2">Steering Committee (and also operational board)
Co-chaired by the EC (DG ELARG) on a permanent basis and by the rotation Chair of the Assembly of Contributors to the European Western Balkans Joint Fund (EWBJF) on a rotating basis every 12 months. Other members of the Steering committee are member states not contributing the EWBJ, beneficiary countries, other stakeholders, the Regional Cooperation Council and partner IFIs (EIB, EBRD, CEB). Other EBFI attend as observers. In contrast to other LGBFs, the steering committee also operates as an operational board.
When acting as executive body for the selection of projects, voting rights projects are based on the status of member states as donors, only those contributing to the fund can vote. Other stakeholders in the steering committee can be observers but not vote. The expert advisers of the lead IFIs can attend for projects of their competence. Interestingly, projects cannot only be presented by the Finance Institutions, but together with the beneficiary countries.
Administrative support is offered by the EC (DG ELARG) and the co-chairing EWBJF contributor.</td></tr>
<tr><td>Executive or Operational body</td><td>Executive Committee
It is chaired by the European Commission (DG DEVCO), with the possibility not yet used of EU member states which have donated more than €5 million to the Trust Fund to chair it. It is composed of the European Commission and all member states which have contributed to the fund at least € 1 million. The EIB attends as manager of the Trust Fund, as well as the secretariat without voting power. Other member states, EBFI and development agencies may attend as observers if invited by the relevant donor.</td><td>Executive Committee
It is chaired by the EC (DG DEVCO), and is composed of all member states. Finance institutions attend meeting as observers. The secretariat is handled by DG DEVCO. In LAIF, due to the reduced presence of EU financiers and the need for close collaboration with regional development banks, those are invited as observers too. This is likely to occur in LAIF.</td></tr>
</table>

PFG/FIG	Project Financiers Group Chaired by the financier hosting the PFG meeting. Each donor to the ITF nominates one financier to the PFG. Current members are AFD, EIB, KfW, BIO, OEeB, Lux-Development, MoF Greece, SIMEST, COFIDES, SOFID, AfDB, PIDG. In this facility, the AfDB is of particular interest, as it is not an EBFI. The UK nominated AfDB as its representative to the PFG. Its member ship was agreed due to the important role it plays in the region and the existing collaboration of this development Bank with European Banks and member states. PDIGE also not an EBFI – but nominated by the Netherlands due to special know how.	Finance Institutions Group NIF model: The FIG is chaired by the European Commission (DG DEVCO). The members of NIF are AECID, AFD, CEB, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID. LAIF: AFD, BCIE, BID, CAF, EIB, KfW, NIB, OeEB There are presently discussions on the role of the regional development banks in Latin America for LAIF, and there are few EBFI active in the regions.	Project Financiers Group Chaired between the European Commission (DG ELARG) on -a permanent basis and by accredited IFIs on a 6 monthly rotating basis. Members are CEB, EBRD, EIB, KfW. Discussions are on-going on the possibility to include the World Bank.
Fund management	The ITF has only one Trust Fund, combining the EU and member states contributions. The Trust Fund is managed by the EIB. Decisions on the Trust Fund are taken by consensus and otherwise by double majority (2/3 majority of those with voting rights and 2/3 of donors).	There are two funds, one is financed by the EU budget and the other is a Trust Fund with the MS' contributions managed by the EIB. Members normally take decisions by consensus or vote according to the rules of the ENPI for NIF. The European Commission has a veto right. For the Trust Fund, voting rules of the Trust Fund are applied, only MS which have contributed to the fund can vote.	The WBIF has five funds: one derives from EU budget resources (€130m) and is managed by the European Commission, the second is a European Western Balkans Joint Fund (EWBJF) with the contribution of donor member states (€20m) and the three others – a marked difference to other LGBFs – come from €10m grant contributions each by the EIB, EBRD and CEB, which are earmarked for their own operations. Each fund has its own voting rules.
Secretariat	EIB	European Commission	European Commission

Annex 2. NIF Selection Criteria

First of all, NIF interventions must bring additionality. Any duplication with other financing resources already or potentially available will be avoided, in particular in relation with operations which could normally be financed without NIF by the market.

For operations concerning the South, in order to ensure full complementarity, a written statement must be attached to the project proposal indicating that it does not duplicate FEMIP operations, nor are there possibilities to finance it under FEMIP.

The operations supported by the NIF will be ODA eligible, will stimulate investments in line with the strategic objectives of the Facility and will be directly linked to the priorities of the ENP Action Plans and of the beneficiary countries. The NIF contributions should be cost effective and will be allocated according to the quality of the proposals, the sector of intervention and the expected impact and leverage effect of the operations.

Recognising that the needs to upgrade infrastructure over the coming years are likely to exceed the public sector's capacity to either finance or manage, the operations supported by the NIF should seek, where applicable, the creation of the institutional and policy conditions for sustainability and for catalyzing private financing.

Moreover, operations fulfilling the following criteria will be given preference:

- being ODA eligible (no longer to be found in the 2010 criteria)
- supporting higher risk activities for which access to finance is limited, such as: energy savings, energy efficiency, increasing renewable forms of energy production, and broadening access to energy services;
- improving social services and social infrastructures;
- helping to reduce regional disparities in income per capita, to improve local development capacities and to increase access to services;
- promoting substantial social returns or global public goods returns and investments for countries with limited borrowing capacities. The use of subsidies simply to increase the volume of lending to the Neighbourhood will be avoided;
- improving access to finance for micro, small and medium enterprises;
- With the exception of those countries outlined in section 9 which may only benefit from NIF interventions on a case by case basis;
- supporting the development of local capital markets;
- supporting the development of a local labour market and improved opportunities for employment ;
- supporting environmental projects with cross-border effects;
- leveraging, as much as possible, important sectoral reforms in beneficiary countries in accordance with the ENP Action Plans;
- seeking to ensure donor harmonisation and complementarity of investments at national and regional level in the beneficiary countries; and
- promoting sustainable socio-economic development, with a particular focus on pro-poor growth.

Annex 3. Guidance Template for Projects in the Context of Loan and Grant Blending Facilities

A. GENERAL PROJECT INFORMATION

I. Project description This part should provide general information on the project and its rationale, including:

- the name of the project,
- details on the project promoter/beneficiary
- name, status, activity, etc.,
- the geographical and sector coverage,
- the description of the project (the total amount of the project, its objectives and their relation to EU objectives, the expected outcome, etc.), and
- the link to related projects.

In this section, other related project features should be presented such as assessing the possible cross-border impact as well as the expected development impact and demonstrating beneficiary's ownership of the project (e.g. in line with domestic strategy, etc.).

II. Macroeconomic and sector parameters

These parameters are intended to set out the environment in which the project will be implemented. These should be outlined here only to the extent they are relevant for the LGB support justification. This part should also include an ex-ante assessment of market conditions, subsidiarity aspects and potential crowding out of other sources of financing.

B. PROJECT RELATED PARAMETERS

III. General LGB request information

This part outlines the type of LGB support requested, the amount of donor support requested (both in absolute and relative terms).

IV. Financing plan This section should include financial details on:

- the main financial indicators (FNPV, IRR, etc.),
- the total contribution of each lender and donor (both in absolute and relative1 terms), including their timing, and
- the other sources of financing.

V. Grant request justification This part focuses on non-financial information on:

- Conformity with instrument/policy general strategy/objectives/orientations,
- How the grant will help remove barriers and accelerate project completion,
- Expected externalities in macroeconomic or sectoral and other ways (domestic/ sectoral/trans-border, etc.) and
- How the grant support will contribute to capacity building.

VI. Value added of the grant This section should include:

- An indication of quantitative aspects of the value added of the grant and
- Description of how the grant support will help improving the project quality.

VII. Risk assessment. This part is intended to identify the project related risks that might be encountered. It shall also outline how potential risk such as crowding-out, market distortions, moral hazard effect and specific project implementation risks have been taken into account and how these risks will be mitigated.

C. PROJECT IMPACT AND IMPLEMENTATION

VIII. Project implementation, monitoring and evaluation

This section should provide information on the schedule of key milestones in the project implementation, such as:

- Indicative dates of the project feasibility/appraisal process,
- Dates of the various lenders' management approval,
- Date of the signature of the contract,
- Expected timing of the start and
- End of project implementation.

If possible a precise project implementation schedule should also be included. Key information on project monitoring and assessment as well as evaluation cycles should also be provided.

IX. Project sustainability. Under which conditions will the project be sustainable when the grant support expires? Should there be any incentives to enhance the sustainability of the project?

Annex 4. Stakeholders Interviewed

AFD

Jean-Marc Bellot	Director, AFD Brussels office

BMZ

Daniel Mierow	Policy Officer, European Union
Stefan Hirche	Policy Officer, Policy Planning Unit

European Commission

Juan-Jorge de la Caballeria	Head of Unit, Multi-country programmes, DG DEVCO
Torsten Ewerbeck	Programme Manager - EU policies, DG DEVCO
Sarah Rinaldi	Programme manager – Head of sector, DG DEVCO
Raquele GIANFRANCHI	Programme Manager, EU Policies - Regional Programmes, DG ELARG
Giorgio CHIARION CASONI	Head of Unit, Coordination with the EIB Group, EBRD and IFIs, DG ECFIN
Stefan APPEL	Head of Unit, IFI Coordination, DG ECFIN
Stefan Agne	Policy Officer - International climate finance, DG CLIMA

European Investment Bank

Tamsyn Barton	Director General, Lending Operations outside the EU (OpsB)
Catherine Collin	Head of Division Coordination OpsB
Alessandro Carano	Deputy Head of Division, Institutional and Operational Policies outside the EU
Massimo Cingolani	Loan Officer, Slovenia, Croatia, Western Balkans
Nathalie Climence	Loan Officer, Morocco
Geoffrey Frewer	Economist, Policy, Reporting and Information Systems Unit (Ops B)
Rasmus Lauridsen	Loan Officer, Lesotho, Namibia, Swaziland
Eefje Schmid	Coordinator, Facility for Euro-Mediterranean & Investment Partnership
Yves de Rosée	Head of Secretariat, EU-Africa Infrastructure Trust Fund (EUAITF)
Alistair Wray	Senior Sector Specialist, EU-Africa Infrastructure Trust Fund (EUAITF)

KfW

Michael Wehinger	First Vice President, Strategy Department
Andrea Delbrueck	Regional Director, Latin America and the Caribbean
Silvia Paschke	Senior Project Manager, Financial Sector and Economic Infrastructure, Latin America
Florian Wieneke	Senior Sector Economist, Development and Climate
Christoph Krieger	Principal Country Manager, MENA, and Economist
Philip Graf von Schwerin	Regional Director, Eastern Europe, Caucasus, Central Asia
Anke Philipps	Principal Country Manager, Central Asia, and Economist

Wolfgang Reuss	First Vice President, North Africa and Middle East
Thomas Prien	Senior Project Manager, Climate and Environment, North Africa and Middle East
Manuel Schiffler	Sector Economist, MENA
Klaus Gihr	Division Chief, Infrastructure, Africa
Christiane Schmidt	Senior Project Manager, Infrastructure, Africa
Reinhold Strauss	Regional Director, Turkey and Southeast Europe
Monika Beck	Division Chief, Competence Centre for Financial and Private Sector Development, Global Funds
Eva Schneider	Project Manager, Eastern Europe
Yasmin Tawfik	Division Chief, Promotional Policy and Partnership
Andreas Berkhoff	Manager, Promotional Instruments and Financial Products
Johann Scheffke	Manager, Promotional Instruments and Financial Products
Susanne Schroth	KfW Brussels Liaison Officer
Amelie D’Souza	KfW Brussels Liaison Officer
Tina Pausch	Manager, Promotional Policy and Partnership
Yasmin Tawfik	Head of Unit, Promotional Policy and Partnership

OeEB

Michael Wancata	Vorstand der Oesterreichischen Entwicklungsbank AG
Andrea Hagmann	Vorstand der Oesterreichischen Entwicklungsbank AG

ABOUT CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is widely recognised as the most experienced and authoritative think tank operating in the European Union today. CEPS acts as a leading forum for debate on EU affairs, distinguished by its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

Goals

- Carry out state-of-the-art policy research leading to innovative solutions to the challenges facing Europe today,
- Maintain the highest standards of academic excellence and unqualified independence
- Act as a forum for discussion among all stakeholders in the European policy process, and
- Provide a regular flow of authoritative publications offering policy analysis and recommendations,

Assets

- Multidisciplinary, multinational & multicultural research team of knowledgeable analysts,
- Participation in several research networks, comprising other highly reputable research institutes from throughout Europe, to complement and consolidate CEPS' research expertise and to extend its outreach,
- An extensive membership base of some 132 Corporate Members and 118 Institutional Members, which provide expertise and practical experience and act as a sounding board for the feasibility of CEPS policy proposals.

Programme Structure

In-house Research Programmes

Economic and Social Welfare Policies
Financial Institutions and Markets
Energy and Climate Change
EU Foreign, Security and Neighbourhood Policy
Justice and Home Affairs
Politics and Institutions
Regulatory Affairs
Agricultural and Rural Policy

Independent Research Institutes managed by CEPS

European Capital Markets Institute (ECMI)
European Credit Research Institute (ECRI)

Research Networks organised by CEPS

European Climate Platform (ECP)
European Network for Better Regulation (ENBR)
European Network of Economic Policy
Research Institutes (ENEPRI)
European Policy Institutes Network (EPIN)

CENTRE FOR EUROPEAN POLICY STUDIES, Place du Congrès 1, B-1000 Brussels, Belgium
Tel: 32 (0)2 229 39 11 • Fax: 32 (0)2 219 41 51 • www.ceps.eu • VAT: BE 0424.123.986