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The European Fund for Sustainable Development: Changing the Game?

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Abbreviations

AFD	Agence Française de Développement
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DEVCO	Directorate-General for International Cooperation and Development
DFI	development finance institution
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIP	External Investment Plan
EU	European Union
EURODAD	European Network on Debt and Development
FDI	foreign direct investment
G20	Group of 20
IFC	International Finance Corporation
KfW	KfW Development Bank
MSMEs	micro, small and medium enterprises
NIF	Neighbourhood Investment Facility
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
SDG	Sustainable Development Goal
TOSSD	Total Official Support for Sustainable Development
USAID	United States Agency for International Development
WBIF	Western Balkans Investment Framework

Executive summary

This discussion paper analyses the European Fund for Sustainable Development (EFSD) by reviewing its main features, outlining key debates surrounding its establishment and exploring the fund's prospects at the country level with illustrations from Ghana and Senegal. The paper builds on desk-based analysis and interviews with stakeholders involved in the negotiations leading to the fund's creation.

As an example of a blended finance approach, a key goal of the EFSD is to use official development assistance (ODA) resources to stimulate lending and facilitate increased public and private investment. A core innovative element of the EFSD is the guarantee mechanism at its heart. The guarantee is expected to enable counterpart organisations to mobilise investment in riskier areas, in particular in fragile and low-income settings where EU blended finance has, to date, had limited reach. The European Commission estimates that an initial EU contribution to the EFSD of EUR 3.35 billion will generate additional public and private investment on the order of EUR 44 billion. However, the novelty of the guarantee facility also means that it is untested, leaving uncertainty about its consequences for resource mobilisation. Against the backdrop of high expectations for the fund, the paper reviews assessments of previous EU blending efforts, outlines the novel elements of the EFSD and discusses areas of contention in the process leading to the fund's creation.

The EFSD builds on a decade of EU experience with blended finance and provides a common umbrella for the continuation of two regional blending facilities supporting investment in Africa and the European Neighbourhood. The fund's creation reflects an extension of ideas from the Investment Plan for Europe to the field of external relations and the political imperative for the EU to support long-term actions addressing migration challenges. The multitude of objectives the EFSD intends to promote reflect high expectations for what it can achieve.

Although contributing to the EU's migration management agenda is a key stated aim of the fund, it is unclear how this objective will influence funding priorities. Investment priorities in areas such as the development of renewable energy, transport and ICT infrastructure as well as support for private-sector development are similar to thematic emphases in other EU blending facilities. The fund's structure will expand the role of the European Commission's Directorate-General for International Cooperation and Development in blended finance, and enable the European Parliament to assume an oversight role. The role of the European Investment Bank in the EFSD is less prominent than it had desired, though it will still be significant. The fund's implementation will depend largely on development finance institutions that have already been privileged partners in EU blending, while seeking to diversify the field of involved counterpart organisations.

The debate surrounding the establishment of the EFSD highlighted differences in views among EU member states in their understanding of how development cooperation should support efforts to limit migration. The Parliament advocated for a stronger linkage between the fund's objectives and the SDG and development effectiveness agendas, and encouraged a stronger commitment to climate action – a position only partially reflected in the regulation establishing the fund. Another area of contention related to the division of institutional responsibilities between the European Commission and the European

Investment Bank in the fund’s overall management, which was resolved in favour of the Commission.

External evaluations of previous EU blending activities, as well as a report from the European Court of Auditors, have noted challenges in demonstrating the added value or additionality of blended finance. To date, EU blended finance has primarily served to leverage funding from public development banks rather than private investors. These reports have examined added value from different perspectives, including its ability to accomplish objectives beyond what other development cooperation instruments can achieve, its potential to fill a gap where commercial financing solutions are not available or its complementarity with domestic financing sources in partner countries. As EFSD implementation moves forward, the clarification and communication of the advantages or disadvantages of the fund’s approach – in comparison to other alternatives – will be critical in situating the contribution of the fund to European development cooperation and the broader development agenda it aims to advance.

1 Introduction

The European Union (EU) and several EU member states are displaying rising levels of interest in engaging with private-sector actors to expand the scope of action to achieve global development goals. The promotion of blended finance mechanisms that use official development assistance (ODA) to leverage public and private investment is one expression of this. Blended finance intends to foster resource mobilisation by combining a public-sector appetite for risk and development cooperation knowledge with private capital and expertise. Commonly used forms of blending include direct investment grants, interest-rate subsidies and loan-guarantee schemes (ECA [European Court of Auditors], 2014).

The interest in blended development finance is an outgrowth of efforts to mobilise innovative development financing to support the achievement of the Millennium Development Goals. This agenda gained traction after the 2008 financial crisis, which placed pressure on public budgets in the EU and stimulated a search for alternative means of addressing still significant global development challenges. The rise of development cooperation providers, including China, that adopt mixed financing models offered a further stimulus to pursue approaches combining public and private resources.

The EU has been at the forefront of promoting blended finance, which has translated into the creation of platforms with dedicated budgets and decision-making processes to design and implement blending operations in specific geographic regions. In 2016, the EU launched an External Investment Plan (EIP) targeted at Africa and the European Neighbourhood as an extension of the Investment Plan for Europe put forward the previous year. The EIP articulates a desire to adapt development cooperation thinking, acknowledging a "need to go beyond classical development assistance, using guarantees and innovative financial instruments to support investment, trade, domestic resource mobilisation and good governance and multiply the impact on the ground" (European Commission, 2016b).

The scale of public investments in EU blended finance is growing as a share of the overall size of its development cooperation portfolio. An evaluation of EU blending experiences indicated that blending represented 4 per cent of EuropeAid's allocations in the period from 2007 to 2013, a figure that is expected to rise to 8 to 10 per cent between 2014 and 2020 (ADE, 2016). The increasing promotion of blending and its growth trajectory signal that gaining a better understanding of the characteristics of blended finance and the challenges that have the potential to limit its effectiveness will be crucial in analysing the future direction of EU development cooperation. This paper examines these questions by focusing on the newly created European Fund for Sustainable Development (EFSD) as the centrepiece of the EIP, which further comprises accompanying technical assistance and policy dialogue investments. The EFSD has been advanced as an innovative financing mechanism to address the causes of migration to Europe and a variety of other goals. The paper identifies the niche that the fund intends to fill, summarises questions raised about the priorities and approach pursued by the fund, and notes challenges for the future.

The paper starts by placing the EFSD in the context of blended development finance, presenting commonly used definitions of blending, identifying rationales for pursuing blending and highlighting available data on trends in blended finance. It then reviews findings from evaluations assessing previous EU blended finance efforts. The paper then turns to a discussion of the characteristics of the EFSD and discusses its perceived added value as an

EU development cooperation instrument identifying elements of the fund that are considered novel within EU development policy. Interviews with 17 stakeholders familiar with debates related to the EFSD's creation informed this part of the analysis. An exploration of the context for EU development cooperation efforts in two partner countries (Ghana and Senegal) drawing on desk-based analysis highlights questions for consideration as the fund moves into the implementation phase. The paper concludes with reflections to inform ongoing discussions on the operationalisation and implementation of the EFSD.

2 Blended finance as a development cooperation approach

2.1 Defining blended finance

The term "blended finance" conveys that a core element of the concept is that it reflects a mixture of different types of finance. Underlying this approach is a conviction that combining finance types generates effects that extend beyond what specific finance types can achieve independently. To provide an umbrella for varied financing mixtures, the Organisation for Economic Co-operation and Development (OECD) defines blended finance as "the strategic use of development finance for the mobilization of additional commercial financing towards the SDGs in developing countries" (OECD, 2017b).

The focus of the OECD definition is on the intended goals of a particular financing approach rather than the form that it takes. This points to a challenge in distinguishing the objectives of blended finance from other development finance approaches. A variety of interventions, such as support for improvements in domestic business environments and financial sectors, can contribute to increasing the availability of commercial financing in developing countries. To reflect its targeted character, a more narrow definition of blended finance that centres on its aim of attracting additional private financing for the same programme or project for which public financing is provided may be more analytically useful (Martin, 2015).

Blended finance can encompass financing forms that involve either a mixture of different types of public funds or financing combining investments from public- and private-sector actors. The public financing component can itself include varied financial instruments such as grants, investment guarantees, market rate or concessional loans, or equity (OECD & WEF [World Economic Forum], 2015). Other measures such as technical assistance may accompany blended finance with the intention of improving project design and implementation by providing analytical and advisory support.

2.2 Rationales for blending

There are several commonly cited motivations for development cooperation providers to pursue blended finance as a means of addressing development objectives.

Resource mobilisation: Blended finance is advanced as a contribution to closing a multi-trillion-dollar financing gap in addressing the goals outlined in the Agenda 2030 for Sustainable Development (Samans, 2016). The pursuit of blending reflects the view that development assistance alone will not be adequate to achieve the Sustainable Development Goals (SDGs); instead it needs to be "complemented by other tools, in order to make best use of and leverage scarce public funds" (European Commission, 2016b). Blending facilities seek to encourage an expansion of private-sector participation, in supporting development goals in particular (European Union, 2017c). One avenue for doing so is to decrease the risks of investing in settings where political instability, the quality of the regulatory environment, and the lack of investor knowledge and experience in a given context are among the reasons that investors are reluctant to engage. By developing financial instruments to encourage investors to shift their perceptions of risks versus potential returns, blending is viewed as a means of tapping into new resources. Although resource mobilisation often appears as a core rationale for pursuing blended finance, other forms of public investment may also be similarly described as serving a catalytic role. For example, the Addis Ababa Action Agenda lists public finance aimed at improving national tax collection capacities alongside blended finance as a form of catalytic development cooperation (UN [United Nations], 2015).

The catalytic function of blended finance is linked to its potential to "leverage" investment by using a small amount of ODA funding to attract larger-scale investment from other sources. The combination of grants and loans can enable development finance institutions (DFIs) to increase lending for projects that would otherwise have difficulty attracting financing on commercial terms due to profitability concerns, other project-related risks or the characteristics of the country setting in which they are implemented (ECA, 2014). The principles for blended finance recently endorsed by the OECD Development Assistance Committee (DAC) indicate that blended finance should contribute to market development, fill a gap, demonstrate additionality or added value in relation to other potential sources of development finance or crowd-in private financing (OECD DAC, 2017). These characteristics support a leveraging effect for blended finance. If these elements are not present, the justification for using scarce ODA resources to support blending activities may be thin.

Knowledge exchange: The participation of development cooperation providers in blended finance vehicles has been advanced as a way to improve the quality of projects requiring private investment and enhance the promotion of social and environmental benefits within them (Danish International Development Agency, 2016; OECD & WEF, 2015). Knowledge gaps among private investors may relate not only to limited experiences in higher-risk geographies, but also to a lack of access to local partners. Public entities can help private investors navigate unfamiliar institutional settings and facilitate network development.

Development effectiveness: In its overview of blended finance operations, the EU lists the potential of blended finance "to enhance the impact of EU development assistance and improved aid effectiveness through greater donor, beneficiary and lender coordination" as one of the main benefits of blending (European Commission Directorate-General for International Cooperation and Development, 2017b). This points to a specificity in the rationale and form of EU blending instruments, as they have, to date, focused on leveraging financing from public development banks rather than private investors (Tew & Caio, 2016). As an example of pooled financing, EU blending activities encourage coordination between the European Commission and large DFIs such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Agence Française de Développement (AFD) and Germany's KfW Development Bank. Such an approach can lead to greater coherence among European development actors and promote visibility. At the same time, strengthening joint action through pooling can increase EU policy leverage over partner countries, potentially diminishing country ownership (Ferrer & Behrens, 2011).

The first of the rationales listed here is the one that distinguishes blended finance from other development cooperation approaches most sharply, as advisory and networking objectives and pooled funding are also associated with other forms of development cooperation. The specificity of blending lies in designing financial instruments to attract additional project financing from other sources. Because blended finance can involve multiple components that resemble other financial and technical assistance instruments, the assessment of the added value of a given mixture should distinguish the extent to which the combination of elements – rather than individual components – generate development benefits.

2.3 Global blended finance trends

Blended finance represents a small but consistently growing corner of global development finance. The organisation Development Initiatives noted that the amount of private-sector funding mobilised as a result of blending activities was less than 10 times the scale of total ODA in 2014. It represented less than 1 per cent of international resource flows to developing countries, when important funding sources such as foreign direct investment (FDI) and remittances were taken into account (Tew & Caio, 2016). The same authors estimate that private capital mobilised through blended finance has experienced a significantly higher rate of growth compared to ODA in recent years. However, they suggest that even sustained increases in these financial flows will not be sufficient by themselves to address the large funding gaps that remain in realising the goals outlined in the Agenda 2030 for Sustainable Development.

The landscape of blended finance involves a variety of multilateral and bilateral aid providers and few private financiers. One recent overview of blended finance trends reports the number of blended finance deals funded by public investors from the 1980s through 2016. The trend line in this analysis points to few deals before the turn of the millennium. This assessment notes that the International Finance Corporation (IFC) holds a leading position in combining donor funding with its own investment capital to attract financing from private-sector partners. The Netherlands Development Finance Company (also referred to as the Dutch Development Bank or FMO) and the EIB follow the IFC in terms of number of deals. Multilateral development banks – including the EBRD and other regional development banks, as well as a number of bilateral DFIs – also represent important players in the blended finance space (Business & Sustainable Development Commission & Convergence, 2017).

To contribute to the knowledge base on blended finance flows, the OECD recently conducted a survey of 80 bilateral and multilateral development entities. The focus of this survey was to outline the scale of private resources mobilised by official development finance in the period between 2012 and 2015. The study considers private financing to relate to transactions undertaken by firms and individuals while acknowledging that public financing can itself be mobilised either through taxation or via private-sector borrowing (Benn, Sangaré, & Hos, 2017). This survey indicated that two-thirds of the private financing mobilised as a result of development finance interventions was linked to the activities of multilateral actors, with the EIB, the World Bank's Multilateral Investment Guarantee Agency and IFC leading the pack. Among bilateral actors, the United States' Overseas Private Investment Corporation (OPIC) mobilised significantly more private financing than its peers. OPIC mobilised USD 13.8 billion in private financing between 2012 and 2015, with the nearest competitor being the United Kingdom's CDC (USD 3.4 billion). The

United States Agency for International Development, the German KfW, the Danish Investment Fund for Developing Countries, the French AFD and several other European bilateral finance institutions rounded out the top 10. Beyond the differences in the scale of blending activities, development cooperation providers vary in terms of the instruments that they use to mobilise financing (Benn et al., 2017).

These studies converge in describing general trends in where – and for what purposes – blended finance has been directed. Banking, energy and industrial production represent key sectors for blended finance investments. Africa has been a leading region in attracting private capital mobilised with support from official development finance, where guarantee mechanisms have been especially important in mobilising financing. At the same time, global trend reports indicate that such funding has especially flowed to middle-income countries (Benn et al., 2017; Business & Sustainable Development Commission & Convergence, 2017). Combined with the observation that this type of financing has particularly benefited countries with low levels of absolute poverty, the poverty-reduction orientation of blended finance vehicles has been questioned (Tew & Ciao, 2016). The development of new financing vehicles with a de-risking focus, including the EFSD and the International Development Association's Private Sector Window, point to an awareness in the international donor community of this existing bias in allocation towards middle-income countries and the need to facilitate additional investment in low-income countries and fragile states.

The evidence base on the effectiveness of blended finance remains limited. Although blending emerged in a context where principles for best practice in development cooperation were widely recognised, there are still challenges in translating development effectiveness principles into blended finance practice (Lonsdale, 2016). The potential development contribution of blending instruments is generally assessed in isolation from other development cooperation instruments, in part due to the project-finance orientation that blending instruments commonly adopt. Nevertheless, as the OECD Development Cooperation Directorate has recently noted:

> [T]o realise its potential, safeguard against the considerable number of potential pitfalls, and integrate effectively into their overall development efforts, donors need to have clarity on the role of blended finance in their overall policies, and the suite of instruments at their disposal. (OECD Development Co-operation Directorate, 2017, p. 7)

Whether, and how, blended finance complements other development interventions supported by public donors thus deserves more analytical attention.

3 Blended finance in the European Union

3.1 Overview of EU blended finance vehicles

The EU has now accumulated a decade of experience with blended finance, dating to the creation of the EU-Africa Infrastructure Trust Fund in 2007. Seven additional regional blending facilities have been established since then (see Table 1). The regional organisation of blending platforms reflects their linkages to geographical EU external relations strategies and cooperation funding sources organised on a regional basis. The EU-Africa Infrastructure Trust Fund, the Caribbean Investment Facility and the Investment Facility for the Pacific are part of the blending framework associated with the European Development Fund (EDF), whereas the Latin America Investment Facility, the Investment Facility for Central Asia and the Asian Investment Facility are associated with the Development Cooperation Instrument (DCI) blending framework. The Neighbourhood Investment Facility (NIF) and the Western Balkans Investment Framework (WBIF) are respectively associated with the European Neighbourhood Instrument and the Instrument for Pre-Accession Assistance. According to the European Commission, since 2007 these regional blending facilities have provided EUR 3.4 billion in grant funding, which has in turn leveraged EUR 26 billion in loans and stimulated total investment of EUR 57 billion (European Union, 2017a).

Table 1: Overview of EU regional blended finance facilities

Facility	Established	Priority areas	EU funding to date (EUR)
EU-Africa Infrastructure Trust Fund	2007	Regional infrastructure, sustainable energy	815 million
Neighbourhood Investment Facility	2008	Energy, private-sector financing	1,678 million
Western Balkans Investment Framework	2009	Transport, energy, social sectors, environment	480 million
Latin America Investment Facility	2010	Water and sanitation, energy	305 million
Investment Facility for Central Asia	2010	Environment, water, energy	143 million
Caribbean Investment Facility	2012	Energy, water and sanitation	83.6 million
Asian Investment Facility	2012	Energy, environment	147 million
Investment Facility for the Pacific	2012	Timor-Leste, Fiji	10 million

Note: The figure for the EU-Africa Infrastructure Trust Fund represents grant pledges from the European Commission and 13 member states contributing to the trust fund. The NIF funding figure reflects contributions from the EU budget. The WBIF figure reflects funding commitments from the European Commission to date. In the remaining facilities, the figures refer to funding for approved projects. These figures do not include estimates of funding leveraged from DFIs and private investors in addition to EU contributions.

Source: Author’s compilation based on EU-Africa Infrastructure Trust Fund (2017b); European Commission Directorate-General for Neighbourhood and Enlargement Negotiations (2016); Western Balkans Investment Framework (2016); European Commission (2017a); European Commission (2017b)

Across regions, the EU’s blending facilities display commonalities in terms of their sectoral emphases and governance structures. The facilities support investments in infrastructure related to energy, transport, water and sanitation, often with a focus on funding for climate change mitigation and adaptation. The promotion of private-sector development is also a priority area for most facilities (Hultquist, 2015). The governance of the facilities typically consists of three tiers, with a strategic board providing overall guidance, a technical body assessing project proposals and an executive body making funding decisions. The West Balkans Investment Framework represents an exception, in that its steering committee combines the strategic and executive functions.

3.2 Summary of evaluation findings

In light of the relatively recent emergence of blended finance instruments and the long-term character of the infrastructure projects that have been a focus of these facilities, the evidence base on the effectiveness of blended finance was limited in the early years of EU blending operations (European Think-Tanks Group, 2011). This has begun to change with the publication of a small number of evaluation reports related to the regional blending facilities. This section briefly reviews findings from five such independent assessments: mid-term evaluations of the EU-Africa Infrastructure Trust Fund and the NIF, a report by the European Court of Auditors on the effectiveness of regional blending facilities, a commissioned evaluation of EU blending and an evaluation of funding provided through the 11th EDF.

The mid-term evaluation of the EU-Africa Infrastructure Trust Fund examined experiences in the first three years of the blending platform's operations. While taking note of progress in areas such as project identification and leveraging resources, the assessment pointed to a host of challenges for the EU to address in further developing the facility (Ernst and Young, 2012). The evaluation encouraged the trust fund management to adapt the fund's objectives to reflect a need for greater private-sector participation in infrastructure financing and delivery. Moreover, it indicated that a stronger focus on contributing to improvements in the institutional and regulatory environments that represent a source of risks to investors would provide an important path for pursuing this aim. The evaluation also made note of potential gains in linking projects better to other development activities in the countries and regions in question. The assessment identified better coordination with regional development actors and increased involvement of EU delegations in project-financing discussions as possible remedies for these shortcomings (Ernst and Young, 2012).

The mid-term evaluation of the NIF presented a largely positive picture of the facility's early achievements in addressing its strategic objectives, highlighting its effectiveness in leveraging additional resources. The mobilisation of significant financing is one demonstration of the NIF's added value. The report also signals that technical assistance supporting project development, investment grants used to strengthen the social and environmental dimensions of projects, and the promotion of coordination among DFIs provide indications of the additionality of NIF funding. Even so, the evaluation report suggests a need for improvement to ensure that the concept of added value holds a central place in the facility's decision-making (Development Researchers' Network, 2013). A key recommendation for addressing this challenge is to strengthen the role of EU delegations in project development and to enhance their policy dialogue and coordination role, in line with the large scale of financing that NIF funding enables. The evaluation suggests that both EU-specific and partner capacity constraints at the country level can limit the inclusiveness of project design and the potential for scaling-up (Development Researchers' Network, 2013).

The European Court of Auditors assessed the management of all eight regional blending facilities and whether they had generated the intended benefits in a special report (ECA, 2014). This report presents a mixed verdict on EU blended finance experiences. On the one hand, the report notes that the facilities have had positive effects related to working on a large scale, providing grant support to improve the quality of projects and encouraging greater coordination among the development finance institutions (EIB, EBRD, AFD, KfW) that have been the main implementing partners in the facilities. On the other hand, the report indicates that the facilities have fallen short of their potential on multiple counts and identifies a host of administrative challenges facing the Commission. The report criticised the Commission for providing large disbursements to beneficiaries before they were needed and for its mixed performance in monitoring implementation. Strikingly, the report questioned the Commission's attention to the notion of added value of grants through the facility. In half of the projects examined, the report concluded that grants were not needed in order to enable project financing via loans. The Commission disputed the merit of this conclusion in the assessment (ECA, 2014).

A more comprehensive evaluation of seven EU blending facilities (excluding the WBIF) offers a more sanguine view of the achievements of EU blending to date. The evaluation acknowledges that the added value of grants was not adequately demonstrated in the early period of blending operations, but it indicates that project assessment and decision-making procedures have improved over time. The evaluation also highlights variations across projects in terms of reaching key blended finance objectives and identifies explanations for the uneven results. For example, the evaluation notes that EU blended finance has successfully contributed to advancing policy reforms in numerous contexts. At the same time, it underlines that the potential for policy leverage is greater if a project originates from a reform initiative, is closely linked to an EU focal sector or EU partnership agreement, or is led by a financial institution with a long history of engagement in the given country (ADE, 2016). Although the evaluation discusses the coordination of EU financing with instruments implemented by international financial institutions and the involvement of EU delegations and national governments in shaping project planning, it does not situate experiences with blended finance alongside other EU investments in the country contexts examined.

Core recommendations from the evaluation include strengthening the focus on identifying how grant funding enables outcomes that would not be possible only with loans, expanding the scope of participation to a more diverse field of DFIs, improving the alignment of projects with national priorities and increasing support for private-sector development. Of special note is the recommendation to increase the emphasis on poverty reduction and job creation as objectives within the blending facilities. The analysis of the poverty and employment profile in a given setting and increased resource allocation to create opportunities for poor populations represent concrete recommendations to elevate the priority given to these dimensions of development. Poverty reduction and job creation were neglected as objectives in the early years of EU blending operations, in light of the focus on financing in middle-income countries and large-scale infrastructure projects (ADE, 2016).

The performance review of the 11th EDF – including a short analysis of the four blended finance platforms reliant on EDF contributions – presents a sceptical view of the added value of blended finance instruments within the broader development cooperation portfolio. The report raises questions about how the leveraging effect of blended finance can best be measured and whether higher leverage necessarily translates to greater value of the EDF contribution. The assessment also echoes concerns expressed in other evaluation reports related to the limited involvement of partner countries in decision-making processes undermining principles of ownership. The report also cautions that blending might not be an appropriate instrument to apply in low-income countries due to concerns of increasing debt levels, and it notes that the project emphasis may hamper efforts to improve the visibility of EU contributions in light of the visibility of financial institutions in project implementation (DAI, GEOtest, & Mokoro, 2017).

3.3 Stakeholder concerns about blending

Although blended finance arguably represents a corner of development cooperation with many advocates and few vocal opponents due to its lofty promises to mobilise additional resources for development and its specialised character, development advocacy organisations have adopted a critical stance on the expansion of blending facilities in light of several core concerns.

A first concern relates to the use of ODA grant funding to leverage investment. The potential downsides of allocating ODA to blending platforms include the tradeoff involved in neglecting other development-oriented interventions that could have been funded with the same resources and the direction of resources to technical assistance, the effectiveness of which has been debated. These concerns about blended finance are linked to broader debates among OECD DAC members on how instruments to stimulate private investment – including guarantees and loans – should be counted as ODA. France and Germany, which have strong bilateral DFIs with an important role in EU blending operations, have been prominent advocates within the DAC for greater flexibility in ODA reporting with respect to public investment aimed towards private-sector engagement (Carter, 2017).

Drawing on evaluations of the blended finance facilities, advocacy groups also highlight the prospect that grant funding is not needed to attract additional financing, but instead serves as a private-sector subsidy (EURODAD [European Network on Debt and Development], 2013). Although there are different avenues through which blended finance can demonstrate added value, such as directing funding to needs that otherwise would not receive it or improving the quality of projects by promoting standards and adherence to development effectiveness principles, available evaluations of blended finance have not presented strong evidence supporting additionality claims (Pereira, 2015). The mobilisation – or leverage effect – of EU blending facilities with regard to real commercial funds has, to date, been very limited, with bilateral and multilateral development banks serving as the main source of mobilised funds. Methodologies for measuring additionality or mobilisation effects are not always fully transparent, pointing to an accountability challenge.

Other key criticisms of blended finance facilities question the compatibility of blended finance practices with development effectiveness principles. The limited partner-country role in decision-making within EU blending facilities points to a donor-driven cooperation approach. As a corrective to this orientation, the European Network on Debt and Development (EURODAD) proposes more explicit consideration and articulation of the intended beneficiaries of blended finance to draw attention to the contribution of blending in assisting local private-sector actors and the poor. As noted in the discussion of global blending trends above, an allocation bias towards middle-income countries and particular sectors may also affect the poverty-reduction orientation of blended finance. Limitations in the transparency of project financing and the underdeveloped character of monitoring frameworks represent further challenges in assessing the effectiveness of blending and its contribution to poverty-reduction goals (EURODAD, 2013; Pereira, 2017).

DFIs that have played a key role in developing and implementing blended finance instruments also express caution in considering how to use blending. A particular concern from the perspective of these stakeholders is the prospect that blended mechanisms may create market distortions by providing concessional financing for projects that could also be financed on commercial terms. In pursuing blended finance models, these institutions therefore also stress the need to demonstrate that blended finance is additional and focuses on closing gaps where commercial finance is unavailable to address project needs (DFI Working Group, 2017).

4 The European Fund for Sustainable Development

The remainder of this paper focuses on the EFSD, discussing the context for the creation of the fund, outlining characteristics that distinguish it from previous EU blended finance frameworks and identifying key debates that accompanied the fund's establishment. This analysis draws on documents available in the public domain as well as input from interviews with 17 stakeholders who observed and participated in the process of setting up the fund from different vantage points. The interviewees included nine individuals affiliated with five different EU institutions, three member state representatives and five other stakeholders. Nearly all of these interviews were conducted in Brussels in September 2017; a single phone interview was carried out in October 2017. Interviewees were assured that their input would remain anonymous. Thus, no individuals are directly attributed in the discussion that follows.

4.1 The context for establishing the EFSD

The impetus for the creation of the EFSD can be traced to at least three sources. First, it reflects a continuation of the EU's experiences with the regional blending vehicles described above, two of which have now been folded into the EFSD. Second, it represents an effort to extend core elements of the Investment Plan for Europe ("Juncker Plan") to the field of external relations. The Investment Plan for Europe was proposed shortly after the Juncker Commission took office at the end of 2014 and was established in 2015. The aim of that plan is to improve the investment environment and dramatically expand private investment within the EU, combining reforms of the regulatory environment, advisory services to increase awareness of investment opportunities and new funding to stimulate investment. The creation of a European Fund for Strategic Investments (EFSI), consisting of a EUR 16 billion guarantee from the EU budget and EUR 5 billion in additional funding from the EIB, was a central component of the plan (European Council, 2017b). The EFSI provides a first-loss guarantee to the EIB in order to enable the bank to provide financing for higher-risk projects than it would otherwise support (European Commission, 2017d).

The Commission announced plans to create a European EIP and the European Fund for Sustainable Development in Commissioner President Juncker's 2016 State of the Union address, which highlighted the value of building on the initial successes of the Investment Plan for Europe in its first year of operations (European Commission, 2016e). The EIP was pitched as a means of offering a coherent EU approach to investment based on three components: the mobilisation of investment through the EFSD, the provision of technical assistance and support for reforms to improve the business environment (European Commission, 2016a). The EIP's three pillars are summarised in Table 2 below.

Table 2: The three pillars of the EU External Investment Plan

European Fund for Sustainable Development	Technical assistance	Promoting a conducive investment climate
Merger of regional blending facilities for Africa and the European Neighbourhood	Support for partner-country project development	Strengthened dialogue between EU delegations and European and local businesses
Guarantee linked to thematic and geographical investment windows	Support for improvements in regulatory and policy environment	Political dialogue to support good governance, regulatory and policy reforms
Leveraging financing by limiting investor risks	Capacity support for private-sector representatives	Coherence with EU and member state initiatives

Source: Author's compilation, based on European Union (2017a)

The third stimulus for the genesis of the EIP and the EFSD within it was the political imperative to confront migration challenges in the aftermath of the 2015 migrant and refugee crisis. In this spirit, the political declaration from the Valletta Summit on Migration between African and European leaders in November 2015 listed support for "inclusive economic growth through investment opportunities and the creation of decent jobs" as one element of efforts to address root causes of forced displacement and irregular migration (European Council, 2015). The EIP was conceived as a long-term response to confronting migration pressures alongside short-term measures, such as border control, anti-trafficking efforts, migrant return and refugee resettlement, which were intended to improve migration management as part of a new Migration Partnership Framework, under which compacts with specific African countries would aim to bring together different policy tools (European Commission, 2016c). The long-term orientation of the EIP distinguishes it from the EU Emergency Trust Fund for Africa, similarly presented as a means of addressing root causes of migration, but initially established with a five-year time horizon for operations (Castillejo, 2016). The European Council Conclusions of June 2016 inviting the Commission to prepare a proposal for the Investment Plan for Europe framed it as a contribution to a comprehensive EU approach to dealing with migration challenges (European Council, 2016).

The swift legislative process providing a framework for the creation of the EFSD reflects the high-level political commitment to establishing the new fund. The Commission submitted the first proposal for a regulation to this end in September 2016, with the final proposal adopted by the Council on 25 September 2017 (European Council, 2017a). The Slovakian Presidency of the EU was also dedicated to achieving a deal within the Council during its term, and advanced a dense calendar for negotiations between the member states to reach this outcome.

4.2 The EFSD as an innovative financing instrument: What is new?

This section reviews the elements of the EFSD that are considered novel. It highlights four dimensions of innovation, focusing on the scale of resources allocated to the fund, the EFSD's objectives, the character of the fund and its governance arrangements.

Scale: As suggested above, the EFSD represents a further development of existing EU blending platforms. In its first phase, it is intended to provide an umbrella for the regional blending facilities supporting investment in Africa and the European Neighbourhood, with an expectation that its geographical scope can be extended in a subsequent phase. Thus, an important component of funding for the initiative does not represent a fresh injection of resources into blending activities. In addition to the contribution from existing blending funds, estimated at EUR 2.6 billion, the EFSD will draw on EUR 750 million to support the guarantee mechanism at the heart of the new fund, with EUR 350 million stemming from the EU budget and EUR 400 million allocated from the EDF. Beyond this funding, the EFSD aims to attract additional support from member states to increase the volume of the guarantee. The Commission has estimated that the EU's initial EUR 3.35 billion contribution will facilitate EUR 44 billion of additional public and private investment (European Commission, 2016a). Although the EFSD may thus represent a scaling-up of resources to the regions covered, the expansion of its influence as a source of development finance depends on the interest of member states in the initiative as well as how investors will engage with the new platform.

One intention in creating the EFSD is that it should create a "one-stop-shop" for potential investors to submit project proposals. In this respect, the EFSD has the potential to promote greater coherence across EU-supported investment vehicles. However, the EFSD will not immediately consolidate investment support frameworks, even in its initial focus regions, as the ACP [African, Caribbean and Pacific Group of States] Investment Facility and other thematic facilities fall outside of its scope (Blomeyer, Paulo, & Perreau, 2017).

Objectives: The regulation establishing the EFSD indicates that EU policy frameworks for external action and development cooperation as well as commitments to international agreements will guide the EFSD's activities. In defining the fund's purpose, the regulation highlights that a primary objective of the fund is the mobilisation of additional finance to support a list of several goals (see Box 1). At the same time, the fund is framed as aiming to "address specific socio-economic root causes of migration, including irregular migration, and to contribute to the sustainable reintegration of migrants returning to their countries of origin and to strengthening of transit and host communities" (European Union, 2017b, p. 2). This emphasis on using the fund to address the root causes of migration distinguishes it from other EU blending facilities. It also represents a change in focus for the existing African and European Neighbourhood facilities. Evaluation evidence indicating that blending operations face challenges in delivering on long-term or secondary objectives suggests that the EFSD's approach to addressing root causes of migration will require careful reflection (ADE, 2016).

Although the goal of addressing root causes of migration enjoys prominence in the presentation of the political rationale for the EFSD, other priority areas outlined in the regulation have affinities with previous areas of emphasis in EU blending operations. Alongside support for the implementation of the Agenda 2030 for Sustainable Development and the EU's migration management agenda, the regulation references infrastructure investment in areas such as renewable energy, transport, and information and communications technology, and support for private-sector actors, including micro, small and medium-sized enterprises as further priorities. Other goals listed include addressing bottlenecks to private investment and funding climate action (European Union, 2017b).

Box 1: Stated purpose of the European Fund for Sustainable Development
"The purpose of the EFSD as an integrated financial package, supplying financing capacity in the form of grants, guarantees and other financial instruments to eligible counterparts, shall be to support investments and increased access to financing, primarily in Africa and the European Neighbourhood, in order to foster sustainable and inclusive economic and social development and promote the socio-economic resilience of partner countries, including, where appropriate, in the context of the European Neighbourhood Policy and the New Partnership Framework with third countries under the European Agenda on Migration, with a particular focus on sustainable and inclusive growth, on the creation of decent jobs, on gender equality and the empowerment of women and young people, and on socio-economic sectors and micro, small and medium-sized enterprises, while maximizing additionality, delivering innovative products, and crowding in private sector funds" (European Union, 2017b, p. 16).

The importance of these sectoral priorities in guiding the fund's investment decisions was confirmed in the main thematic investment windows that the EFSD strategic board presented at the end of September 2017. The proposed windows are labelled "Sustainable Energy and Sustainable Connectivity", "Micro, Small and Medium Enterprises (MSMEs) Financing", "Sustainable Agriculture, Rural Entrepreneurs and Agroindustry", "Sustainable Cities" and "Digitalisation for Sustainable Development" (European Commission Directorate-General for International Cooperation and Development, 2017a). Although these windows are closely aligned with priorities outlined in the regulation establishing the EFSD, the lack of an explicit reference to migration indicates that the intervention logic of the fund – in relation to that element of the agenda – remains unclear. The implicit linkage between the investment windows and the goal of addressing root causes of migration appears to relate mostly to the contribution of investments to enabling job creation. In light of the findings from assessments of earlier EU blending experiences, which highlighted a lack of emphasis on job creation as a goal, the strengthened interest in increasing the scale and quality of employment opportunities provides an example of an evolution in EU blending practice through the EFSD.

Character of the fund: A core element of the EFSD is a guarantee mechanism, which gives the facility a distinct quality in relation to existing blending platforms for EU development finance by shifting the focus to de-risking instruments instead of subsidising interest rates to increase the affordability of loans. The guarantee element resembles the structure of the EFSI, which was created in the context of the Investment Plan for Europe (European Investment Bank, 2017). It thus reflects the influence of the intra-European investment platform over a facility designed to support EU external action. The novelty of the guarantee mechanism implies that it is still untested as a resource-mobilisation approach.

As outlined in the Commission's proposal for the establishment of the EFSD, the purpose of the guarantee is to cover losses of the counterparts selected to implement projects under the facility in the event of default (European Commission, 2016d). In contrast to other guarantee facilities, the EFSD guarantee is not designed as a revolving fund but rather as a lost grant if funds cannot be repaid. The regulation establishing the EFSD lists six categories of counterpart organisations, including the EIB and the European Investment Fund, public law bodies, international organisations and three other organisational categories (European Union, 2017b). The expanded scope of potential counterparts is another feature of the EFSD that marks an evolution from earlier EU blending practice.

The goal of this mechanism is to enable the counterparts to increase financing activities in higher-risk areas. The interest in using the guarantee mechanism to mobilise investment to riskier contexts is evident in the regulation establishing the fund, which foresees that "a significant share" of the guarantee available for African countries should support investments in fragile and conflict-affected countries, landlocked countries and least-developed countries (European Union, 2017b, p. 26). The emphasis placed on the guarantee mechanism within the EFSD suggests that the financial instrument is the focal point in addressing investor perceptions of risk. The financial instrument manages the potential consequences of accepting higher risks. Efforts to address the underlying sources of risks to investors linked to the political or regulatory context fall outside the scope of this instrument. It is unclear how initiatives associated with the second and third pillars of the EIP addressing the character of the business environment will be prioritised alongside the introduction of the new financing facility.

The use of guarantee instruments by multilateral development banks has increased over the last two decades, though their importance for project financing remains limited. As Humphrey and Prizzon (2014) note, one of the controversial aspects of using guarantees to promote private-sector investment is the question of whether – and under which conditions – a guarantee should count as ODA. Although a guarantee may be directed towards social and economic development objectives in ODA-eligible countries, it generally only represents a resource flow when a project has failed, calling into question its development benefits (Humphrey & Prizzon, 2014). The regulation establishing the EFSD indicates that its guarantee should support activities that fulfil ODA criteria. Nevertheless, the implications of the guarantee for EU ODA accounting remain uncertain, in part due to ongoing OECD DAC discussions on how instruments to mobilise private-sector investment should be included in ODA reporting. Since the use of ODA for blended finance in low-income settings is a subject of debate, a higher degree of transparency and accountability is warranted in the context of the EFSD.

Governance: Given that the EFSD combines existing regional blending facilities for Africa and the European Neighbourhood and seeks to maintain the working methods of these facilities, the EFSD's governance structure resembles the set-up for other blending platforms, with a division of strategic and operational responsibilities among different entities. The European Commission, through its Directorate-General for International Cooperation and Development (DEVCO), will assume a leading role in the overall management of the EFSD. This implies an expansion in the scope of DEVCO's management of blended finance and a commensurate increase in staffing to oversee the fund. For operational management of the guarantee mechanism, however, the Commission will collaborate with the EIB and other counterpart organisations, underlining its dependence on DFIs for technical advice (European Union, 2017b).

As with other blending platforms, a strategic board will provide guidance on the EFSD's priorities. The strategic board assumes a role in promoting consistency with other pillars of the EIP and other dimensions of EU development cooperation and external relations. The regulation sets out that the Commission, the European External Action Service, all EU member states and the EIB will be represented on the strategic board (European Union, 2017b). In addition, the European Parliament will hold an observer status on the board, signalling a stronger role for the European Parliament in the oversight of blending operations. The regulation also stipulates that the Commission will be subject to oversight from the Council and Parliament in the context of annual reporting. It mandates that the Commission assess the EFSD's performance with respect to the additionality of the financial instrument and its ability to mobilise private resources, create jobs, reduce poverty and address root causes of migration, in addition to other concerns (European Union, 2017b).

4.3 High expectations and open questions: controversies in the EFSD legislative process

Optimism about the EFSD's potential to attract investment and support broader development objectives through an innovative approach accompanied the legislative process. As an example, Commission Vice President and EU High Representative Federica Mogherini and EU Commissioner for International Cooperation and Development Neven Mimica wrote towards the start of the process that the initiative involved "taking EU development policy to the next level" and represented "a new chapter for EU development policy" (Mogherini & Mimica, 2016). However, these expressions of confidence seem mild in comparison to Green MEP Claude Turmes's statement that the EFSD represented the "best EU initiative ever" in the context of the final plenary debate on the initiative in the European Parliament (Gotev, 2017).

Although the one-year timeframe for moving from a proposal to a regulation indicates broad political support – or at least limited opposition to creating the EFSD – the debate on its objectives and organisational set-up exposed areas of contention among core stakeholders. There were differences of views among member states and between EU institutions, with civil society organisations also contributing critical input on the EFSD's purpose and elements of its design. A further implicit controversy is that the development of the EFSD, a core goal of which is to target investment in Africa, proceeded without the direct involvement of relevant stakeholders in the states that are the intended beneficiaries of the fund.

Among member states, a core area of debate related to the manner in which to link the EU's migration management and development policy agendas within the EFSD framework. There is widespread acceptance among EU member states of a goal to address the root causes of migration related to the economic and political opportunities that prevail in particular partner-country contexts in a manner compatible with existing development cooperation priorities. However, the migration management agenda also includes measures, such as restricting movement and encouraging migrants to return to their countries of origin, that are more difficult to reconcile with development goals. The coupling of development goals with the migration management agenda has raised concerns among civil society organisations, which regard this orientation as an example of the subordination of long-term development objectives to short-term political interests that is based on a questionable theory of change (Oxfam et al., 2016).

Addressing the root causes of migration and irregular migration trends features among the main objectives of the EFSD in the regulation establishing it and represents one relevant dimension against which its performance will be assessed. However, the importance of this agenda in relation to other priorities of the fund and its operational consequences with respect to resource allocation remain unclear. There are diverse channels for addressing the causes of migration, given that the drivers themselves can include demographic changes, the economic transformation of societies, the political setting within countries or cultural factors. The relevance of such factors varies depending on the country context (Martin-Shields, Schraven, & Angenendt, 2017). Motivating the EFSD as a means for addressing migration challenges without clarifying how the interventions financed through the fund will deal with these complex causes creates a challenge for the EFSD in terms of demonstrating results, as the stated migration-related aim may divert attention from other objectives that fit within the scope and character of the fund.

Another aspect of the objectives guiding the EFSD that sparked debate included how the fund’s objectives should be embedded in existing European and international development reference frameworks. Three European Parliament committees reviewed the legislative proposal for creating the EFSD. Their deliberations highlighted an interest in strengthening the linkage between the EFSD and the EU development policy commitment to poverty reduction and the reference made to the role of the EFSD in contributing to the Agenda 2030 for Sustainable Development. The Parliament also underlined the importance of ensuring that development effectiveness principles to promote country ownership, transparency and accountability, and the untying of aid were explicitly outlined in the EFSD’s policy framework (European Parliament, 2017).

In line with the other proposals to promote the consistency of the EFSD’s approach with the EU’s international commitments, the Parliament advocated that the EFSD should firmly advance the EU’s efforts in relation to the Paris Agreement on climate change. Although the final regulation reflected this goal to a larger extent than the initial proposal, it fell short of the stronger focus on climate action that the Parliament proposed. Thus, the EFSD regulation indicates that a minimum of 28 per cent of financing under the EFSD guarantee should be directed to investment in renewable energy and resource efficiency, in comparison to the 35 per cent target proposed by the Parliament. In addition, the regulation did not take up proposed exclusionary criteria for investment that would have restricted financing for carbon-intensive industries (European Parliament, 2017; European Union, 2017b). These parliamentary positions reflect an affinity for views expressed by civil society organisations, which urged EU institutions to adopt a strong poverty-reduction focus, improve the quality of social, labour and environmental safeguards, establish a centralised grievance mechanism and affirm a commitment to partner-focused development by supporting local private-sector actors (Latek, 2017).

Although a key motivation for the EFSD and blended finance in general is to mobilise additional private financing for development, stakeholders interviewed for this study suggested that engagement with the private sector to stimulate interest in opportunities linked to the EFSD remains a work in progress. It does not appear that a clear demand from private-sector actors was a core driver for the establishment of the new fund. One expectation in widening the possibilities for DFIs beyond the large players in European blended finance (EIB, EBRD, KfW, AFD) to benefit from the EFSD is that these diverse DFIs can expand the networks of private-sector actors interested in investing in the regions and sectors targeted by the fund. The second and third pillars of the EIP promote private-sector outreach to this end, for example by supporting dialogue with European and partner-country business forums (European Union, 2017a). Given the importance of expanding private investment as a rationale for creating the EFSD, the fund’s ability to bring private investors to the table will represent a key indicator of its performance.

Beyond debates on the balancing of different priorities within the EFSD’s policy framework, the period leading to the establishment of the EFSD was also marked by differences between EU institutions concerning their respective roles in the oversight and management of the fund. The main area of controversy in terms of inter-institutional relations was the division of responsibilities between the EIB and the European Commission, with both entities seeking to have overarching control of the fund. In establishing the fund, this question was resolved in favour of the Commission, which will benefit from additional staffing capacity to support a stronger role in managing innovative financing and private-sector development. The EIB will nevertheless play a central role in the operationalisation of the fund, and the institutions are mandated to come to agreement on how to structure their cooperation in managing the EFSD (European Union, 2017b).

5 The EFSD in the context of partner-country development

As the discussion above indicates, the EFSD is still at an early stage of development, and the assessment of its positive and negative qualities will have a stronger footing as the implementation phase unfolds. This section seeks to situate the EFSD's potential role in European development cooperation by considering its place alongside other forms of development financing and existing EU development cooperation priorities in two West African countries: Ghana and Senegal. The section explores the development finance context in these countries to illustrate the potential of the EFSD in facilitating public and private investment.

Both countries have been identified as priority countries in EU programmes to respond to the current policy agenda of addressing the root causes of migration. Both countries host projects financed through the EU's Emergency Trust Fund for Africa as part of the Sahel and Lake Chad area window, with Senegal participating since the fund's creation in 2015 and Ghana added as a priority country at the end of 2016 (European Commission, 2017c). Although they are generally characterised as stable democracies on an upward economic growth trajectory, both countries face challenges in ensuring that future economic development gains are broadly distributed. The World Bank currently classifies Ghana as a lower-middle-income country, whereas Senegal is considered a low-income economy (World Bank, 2017).

The analysis in this section stems from a desk-based review and discusses the context for EFSD engagement across three dimensions: the overall development finance landscape, European development cooperation priorities and the priorities for expanding investment articulated by each country in connection with the Group of 20 (G20) Compact with Africa.

5.1 Ghana

Ghana has long held the status of a "donor darling", but the importance of aid in the overall economy has diminished over the last decade. As a study of the changing development finance context in Ghana, Senegal and Timor-Leste carried out to inform OECD discussions on the reform of the ODA concept highlighted, ODA flows to Ghana have been stable in real terms over the last decade, but they have been outpaced by GDP growth in the country (OECD, 2014). In addition, other sources of external development financing such as FDI and migrant remittances have assumed greater importance (see Table 3). Alongside flows from OECD countries, there has also been a diversification of development cooperation providers. As Table 4 highlights, the EU and its member states provide a minority share of

ODA to Ghana while contributing to multilateral cooperation efforts that provide an important source of funding to the country.

Blended finance instruments provide a further example of the diversification of forms of external support. The OECD report suggests that the Ghanaian government has tended to view blending as being similar to other forms of lending rather than as a distinctive financing approach. This likely reflects the role of blended finance in softening the terms of loans. Although the government has displayed a generally favourable view towards diverse forms of external development finance – and especially funding that is large in scale, flexible and aligned with national priorities – the diversity of flows raises challenges in terms of maintaining oversight and coordination of inputs (OECD, 2014). The expansion of financing does not automatically imply an expansion of the capacity of the government to improve the management of these flows and ensure that they are promoting complementary objectives.

Table 3: Composition of external finance flows to Ghana

	ODA	Remittances	FDI	Other securities	Export credits	Other official flows	Private grants
2009	1,483 (62.7)	119 (5)	172 (7.3)	153 (6.5)	176 (7.4)	221 (9.3)	43 (1.8)
2012	1,591 (33.5)	1,568 (33)	576 (12.1)	202 (4.2)	547 (11.5)	218 (4.6)	52 (1.1)
2015	1,542 (22.4)	3,495 (50.8)	952 (13.8)	481 (7)	270 (3.9)	90 (1.3)	53 (0.8)

Note: Figures are in US dollars (millions), and the figures in parentheses are the percentage of the total external finance listed in this chart.

Source: Author's compilation based on OECD (s.a.)

Another important dimension of the development finance landscape is the potential for domestic resource mobilisation. Although Ghana has witnessed gains in governmental revenue generation, in recent years a slowdown in economic growth – traced, in part, to the evolution of oil markets – has affected the government's fiscal room for manoeuvre (Okudzeto, Lal, & Sedegah, 2017). The country faces a high debt burden and is characterised as being at a "high risk of debt distress" by the International Monetary Fund and World Bank. The Ghanaian government has promoted private-sector development and increased FDI as avenues for enhancing revenue-collection potential (Okudzeto et al., 2017). The government also promotes the local capital market as a source of funding for the energy sector. However, a recent bond issuance fell short of expectations (Dzawu, 2017a, 2017b). Although Ghana's political stability and natural resource wealth have helped to attract investment, the regulatory setting, the skills of the labour force, the reliability of the power supply and policy enforcement are among the factors that pose challenges to increased levels of investment (US Department of State, 2017), highlighting the multi-dimensional character of investment constraints.

The EU and its member states support efforts to increase the capacity of the Ghanaian government to generate and manage revenue through their development cooperation programmes. Accounting for 23 per cent of the EDF allocation, public-sector management and accountability represents one of three sectoral priority areas under the National Indicative Programme outlining EU cooperation priorities with Ghana under the 11th EDF. The other main priority areas relate to increasing investment in agriculture and supporting sustainable land use in savannah ecological zones (50 per cent of the EDF allocation) and increasing employment and social protection (25 per cent). The Indicative Programme takes an analysis of employment opportunities by sector as its starting point and seeks to support MSME development as a main objective (Republic of Ghana-European Union, 2014). When member state funding is considered alongside EDF allocations, the existing priority attached to private-sector development becomes even more clear. In the 2013-2016 period, private-sector development was the single largest sector supported by the EDF and bilateral donors participating in EU joint programming (Republic of Ghana-European Union, 2014).

Table 4: Europe's development cooperation footprint in Ghana

	2011	2012	2013	2014	2015
EU	516.4 (29)	446.6 (25)	435.3 (33)	352.2 (31)	432.1 (24)
Total	1,804	1,799	1,329	1,124	1,768

Note: Numbers refer to total net receipts of ODA reported to OECD for EU institutions and European member states that are DAC members. The figures are in US dollars (millions). The percentage of total ODA net receipts is indicated in parentheses.

Source: OECD (2017c)

In light of the emphasis placed on generating additional investment in key sectors and promoting initiatives to stimulate job creation, this short overview of European development cooperation suggests that the goals of the EFSD resonate with existing priorities in country-level cooperation. The potential for using the EFSD's guarantee to address these goals using a new method creates an opportunity for comparing the value of different cooperation approaches. In assessing the performance of the EFSD within its priority thematic areas, such as MSME development, it will be relevant to consider whether the fund differs in terms of the scale, quality and impact of activities it finances in relation to other forms of support pursuing similar aims.

Evidence on Ghanaian experiences with blended finance is limited. The country has received support for 10 projects through the EU-Africa Infrastructure Trust Fund, primarily in the energy sector. The grant funding for the majority of these projects has taken the form of technical assistance, generally supporting feasibility studies. There is little information on project results, but there are some indications of delays in project implementation related to context-specific factors (EU-Africa Infrastructure Trust Fund, 2017a). The fund's most recent Annual Report provides one illustration of this in referencing the economic turmoil in Ghana and Nigeria as being a factor in delaying the implementation of a project extending credit via the AFD to local companies and individuals to promote renewable energy and energy efficiency (EU-Africa Infrastructure Trust Fund, 2017b).

Ghana was one of the first African countries to commit to participating in the G20 Compact with Africa, which is an initiative designed to foster private investment through the analysis of investment constraints in host and source countries and to offer support for efforts to improve the macroeconomic context for investment, the business environment and the availability of financing to facilitate private investment. In an initial investment prospectus prepared in connection with the initiative, the Ghanaian government draws attention to investment opportunities in areas – including energy, agriculture and extractive industries – and points to a handful of policy reforms that may make the country a more attractive investment destination. The prospectus also makes note of the Ghana Venture Capital Trust Fund and Ghana Infrastructure Investment Fund, signalling that the expansion of domestic financing platforms to unlock additional private investment is a feature of the evolving context for development financing, which is relevant in framing European actions to mobilise additional investment in partner countries (Ghana Investment Promotion Centre, 2017). As Kappel, Pfeiffer and Reisen (2017) suggest, the promotion of policies that work to integrate domestic and international investment is an important element in stimulating economic development efforts across Africa.

5.2 Senegal

There are numerous similarities in the development financing contexts in Ghana and Senegal. As in Ghana, aid flows to Senegal have lost importance in relation to the overall strength of the economy, in light of the stability of aid flows and modest economic growth, even as aid receipts continue to represent an important percentage of central government expenditures (OECD, 2014). In comparison to Ghana, FDI represents a smaller share of overall external development financing in Senegal. Remittances constitute a significant cross-border resource flow. Although Table 5 below suggests that ODA surpassed remittance receipts in 2015, the opposite was true in the aftermath of the global financial crisis. European development cooperation has represented a more important share of total ODA to Senegal compared to Ghana (see Table 6), which can be attributed especially to the important role of France as a development partner. Even so, other multilateral and bilateral aid providers account for the majority of ODA flows.

Senegal was selected as the first pilot country for an OECD study to examine partner-country views towards the Total Official Support for Sustainable Development (TOSSD) concept promoted by the OECD as a means of providing a more comprehensive account of development commitments. The report indicates that Senegalese stakeholders generally welcome diverse sources of development finance, including flows from non-DAC development cooperation providers and private sources, of which various guarantee mechanisms provide examples. At the same time, there appears to be a lack of information about the scale and substance of these and other flows, such as philanthropic contributions. A conclusion from the study is that the TOSSD concept therefore has the potential to have an impact in promoting the transparency of different types of resources to ensure that external financing fits with national priorities (OECD, 2017a).

Table 5: Composition of external finance flows to Senegal

	ODA	Remittances	FDI	Other securities	Export credits	Other official flows	Private grants
2009	981 (36.7)	1,359 (50.8)	131 (4.9)	83 (3.1)	4 (0.1)	90 (3.4)	26 (1)
2012	1,004 (57.1)	488.3 (27.7)	39.4 (2.2)	92.1 (5.2)	10.8 (0.6)	93.1 (5.3)	32.1 (1.8)
2015	1,093 (48.3)	807 (35.7)	36 (1.6)	97 (4.3)	55 (2.5)	136 (6)	37 (1.6)

Note: Figures are in US dollars (millions), and the figures in parentheses are the percentage of the total external finance listed in this chart.

Source: Author's compilation based on OECD (s.a.)

According to the description of trends in economic management described in the *African Economic Outlook*, the Senegalese government has adopted a careful approach to fiscal policy in recent years by improving tax collection and limiting fiscal deficits. Although the country is considered to be in a sustainable position with respect to its debt management, a prioritisation of infrastructure investment has been one reason for the consistent increase in public debt. To address financing needs associated with the "Plan Sénégal Emergent", Senegal has increasingly emphasised its interest in pursuing infrastructure development through public-private partnerships (Houeninvo, Khadidatou, & Isayak, 2017). This emphasis was reflected in the establishment of the Sovereign Fund for Strategic Investments in 2013. The fund aims to attract capital from investment funds, credit institutions and development partners to supplement capital provided by the Senegalese government to stimulate economic growth and job creation across the sectors outlined in the Plan Sénégal Emergent (Sovereign Fund for Strategic Investments, 2014). Senegal has registered improvements in recent years in the investment climate indicators presented in the World Bank's "Doing Business" report. Nevertheless, challenges related to the electricity grid, access to credit and bureaucratic obstacles to starting a business are among the factors still considered to be limiting private-sector growth potential (Houeninvo et al., 2017).

The profile of European development cooperation with Senegal resembles the portfolio in Ghana to the extent that support for governance reforms represents a first priority sector for intervention under the 11th EDF framework. Investments in agricultural development and food security also have a large weight (accounting for 52.5 per cent of the total allocation). In contrast to Ghana, there is a stronger focus on social infrastructure instead of employment creation as a sectoral priority, as funding to support improvements in the water and sanitation represents 32.5 per cent of the EDF allocation under the current Indicative Programme. The overview of EU and member state allocations summarised in the National Indicative Programme does not list private-sector development as a distinct thematic area for support. The list instead reveals that rural development and food security, energy, and water and sanitation are the largest sectors of activity for the EU and member states considered together, reflecting the participation of the largest EU donor, France, as well as the EIB in these sectors (Union Européenne-République du Sénégal, 2015).

In reference to the EIB's possibilities for action in the country and the expectation that such activities would be complementary to the priorities outlined in the National Indicative Programme, the document highlights that blending could be especially welcome as a tool to finance regional infrastructure or agricultural development. Senegal is one of nine countries on the African continent where the EIB has a country office. The bank's lending operations in the countries have prioritised investments in energy, water and sanitation, industrial development, and the financial sector (Banque Européenne d'Investissements, 2015). The EIB has also played a role in projects funded through the EU-Africa Infrastructure Trust Fund, though it only acted as lead project financier for two of nine of the trust fund grants (AFD had the lead for six of the nine grants). As in Ghana, the majority of trust fund grants (seven of nine) supported technical assistance (EU-Africa Infrastructure Trust Fund, 2017a). Published project descriptions provide an indication of activities funded and do not reveal information about challenges experienced in these blended finance projects. This may reflect that not enough time has elapsed to assess the added value of the grants provided through the trust fund.

Table 6: Europe's development cooperation footprint in Senegal					
	2011	2012	2013	2014	2015
EU	428.4 (41)	515.3 (48)	336.4 (34)	472.8 (43)	253.9 (28)
Total	1,055	1,076	995	1,109	879

Note: Numbers refer to total net receipts of ODA reported to OECD for EU institutions and European member states that are DAC members. The figures are in US dollars (millions). The percentage of total ODA net receipts is indicated in parentheses.

Source: Author's compilation based on OECD (2017c)

Like Ghana, Senegal displayed interest in the G20 Compact with Africa as one of the countries to subscribe to the initiative in its first phase. Its short prospectus on investment opportunities presents several potential areas for partner support to facilitate investment, including strengthening public expenditure management, reviewing tax policy and adopting regulatory changes in the ICT, agricultural and tourism sectors. The prospectus lists energy; agriculture, fisheries and food; digital economy and tourism; regional infrastructure; and public-private partnerships as priority investment areas (Ministère de l'Economie des Finances et du Plan, 2017). Strengthening guarantee instruments is one of a small number of specific measures proposed in which G20 Compact with Africa partner countries can contribute to improving the financing framework.

The emphasis of the G20 compacts in promoting activities across the three dimensions dealing with the macroeconomic framework, the business framework and the financing framework overlaps with the objectives of the three pillars of the EIP and is consistent with the logic behind the EFSD. Both initiatives emphasise project financing for infrastructure as a mechanism for fostering economic growth and job creation. As Lay (2017) cautions, however, other types of interventions, such as improvements in the skills base of potential employees through education, also contribute to creating a favourable environment for investment and private-sector growth, signalling the importance of embedding investment programmes in the comprehensive approach to development reflected in the SDG agenda.

5.3 Common threads and implications for the EFSD

This basic presentation of elements of the development finance context in two countries – through which the EFSD could potentially facilitate the mobilisation of additional resources – suggests three general observations. First, new development finance instruments enter contexts where sources of external financing have diversified. The diversity of finance flows presents challenges to partner governments and other stakeholders in terms of tracking funding and ensuring that varied sources of funding serve a complementary purpose. With the introduction of an additional instrument, the EU should therefore not only promote transparency in relation to the new flows but also outline how new flows work together with other investments from the EU and its member states. The availability of development financing alternatives may also limit the policy leverage of the EU in relation to partner-country governments. Factors beyond the scope of the EFSD can shape the EU's possibilities for promoting reforms or other policy choices in partner-country contexts.

Second, EU and member state development cooperation programmes reflect a mix of priorities and instruments identified in relation to an analysis of core challenges in given country contexts that respond to a combination of European and partner-country interests. The introduction of a new financing vehicle may present an opportunity to reinforce existing priorities or represent a shift in the focus placed on engagement on specific topics, in certain regions or with different types of beneficiaries. If a reinforcement of existing priorities is intended, there is a chance to assess the added value of the new approach by comparing its achievements to the results from earlier efforts with similar aims, or to projects implemented in the same period adopting a different approach. This implies that the assessment of the EFSD should not only focus on project-specific results but also seek to weigh the value of the development financing model it promotes against possible alternatives. The EFSD's role in filling gaps in support to underfunded areas by easing financing constraints provides one potential indicator of its added value. Although the possibility for the EFSD to scale-up financing for infrastructure and private-sector development is seen as a key selling point, its ability to do so depends on the identification of viable projects to finance.

Third, the EFSD is being developed at a time when many partner governments share an interest in increasing private-sector participation in development. Although European blended finance may be one avenue for supporting this goal, new domestic facilities are also being created within partner countries to stimulate investment. Thus, when developing blended finance platforms further, it is relevant for the EU to consider how European efforts complement and interact with the activities of domestic financing platforms in addition to identifying their added value in relation to other forms of European development financing.

6 Conclusions

The EFSD currently enjoys prominence as an initiative that intends to demonstrate a continued EU commitment to addressing global development goals in a climate where political support for development assistance is languishing. Like other examples of blended financing, the EFSD promises to leverage scarce ODA resources to mobilise additional financing for development projects from public development banks and private investors. The EFSD's guarantee mechanism aims to lower risks to financiers to enable greater engagement beyond the middle-income country contexts that have, to date, been favoured geographies for investment. Increased levels of investment in infrastructure and private-sector development are expected, in turn, to create jobs and ultimately contribute towards reducing migration to Europe. As with any instrument at an early stage of operationalisation, the extent to which implementation realities can fit with the high ambitions present during their creation remains uncertain.

One of the reasons for the uncertain outcomes of the EFSD is that its success will depend on attracting financing commitments from other public institutions and private investors to challenging investment settings. Although the guarantee mechanism creates opportunities for DFIs to expand lending activities, it is not clear what types of private-sector partners are expected to take advantage of the investment opportunities that the de-risking instrument facilitates. Information reviewed in this analysis of the EFSD does not provide the impression that the instrument was created to respond to the needs articulated by private investors, and the availability of financing is not the only factor influencing investment decisions. The remaining two pillars of the EIP and other elements of European development cooperation address framework conditions within partner countries that shape the investment environment. A key challenge for the future of the EFSD is clarifying how the instrument fits with – and contributes to – efforts to address broader constraints to domestic and international investment in low-income settings.

As an example of blended finance, the EFSD presents both opportunities and risks. The potential to mobilise significant resources to stimulate economic development and poverty reduction as a result of a new guarantee mechanism that serves an investment-facilitating function is one of the main selling points of the initiative. However, if the EFSD instead encourages unsustainable lending, it may contribute towards raising debt levels in low-income countries and place new constraints on development. One contribution to managing such risks is the continued monitoring and review of the EFSD's performance and a commitment to learning from project experiences over time.

The EFSD reflects an evolution rather than a revolution for EU development policy, as it represents an extension of blended finance platforms that have risen in importance over the last decade. The small number of available evaluations of EU blending operations highlight that, in spite of the optimistic rhetoric related to such approaches, there are still many open questions about blending's added value. The added value of blending has been questioned both with respect to whether, and how, the approach contributes to poverty-reduction efforts, and in terms of whether blending offers a relevant solution where commercial financing is not available.

Addressing these concerns requires a clear articulation of the gaps that the EFSD will fill, for example in terms of engagement with specific beneficiaries or areas of coverage. In this context, it is relevant to examine the EFSD's contribution alongside other alternatives for addressing the development goals that it seeks to address rather than analysing the fund as a standalone vehicle. For example, Kleist and Vammen (2012) highlight the role of diaspora communities as a source of financing for local development, noting that efforts to facilitate remittance transfers and support diaspora associations can advance development goals in migration source countries. Altenburg (2017) draws attention to varied interventions that can stimulate job creation in Africa, including support for political reforms to improve framework conditions for private-sector engagement, the targeted promotion of key sectors and public employment programmes for the poor. This short list of alternatives underlines that there are diverse solutions available to address multi-dimensional development challenges. The EFSD itself is framed as a means of addressing a multiplicity of objectives. This is problematic not only because it potentially oversells what a single initiative can achieve on its own, but also because it may propose a homogeneous remedy to diverse challenges requiring a different mix of policy or financial responses, depending on the context.

Evaluations of earlier EU blending operations have pointed to the limited involvement of partner countries in decision-making. This paper identified three key stimuli for the development of the EFSD: the continuation of earlier EU blending efforts, the desire to extend elements of the Investment Plan for Europe to the field of external relations, and the political interest in identifying ways of limiting migration to Europe in the wake of the 2015 migrant and refugee crisis. These motivations indicate that the development of the EFSD has primarily been Brussels-driven, with limited indication of partner-country demand for the new instrument.

Embedding the EFSD in European development cooperation and ensuring its complementarity with domestic efforts and other development financing activities within partner countries will therefore represent important areas for further work. To advance these goals and address the shortcomings of previous EU blended finance efforts, the ability of EU delegations to influence country-level priorities and the capacities that delegations need to participate effectively in the management of investment-oriented development approaches requires attention.

Given that the EFSD creates opportunities for DFIs to expand lending activities, the fund may also provide a stimulus for operational actors such as the EIB to strengthen their capacities in the geographies covered. While the EIB has a field presence in nine African countries, its country presence is limited in comparison to large bilateral DFIs. The expansion of its portfolio creates pressures to substantively increase field-level representation to promote coherence of EIB activities with other dimensions of European development cooperation (Ujvari, 2017). To advance coherence and avoid the fragmentation risks associated with the potential participation of numerous counterparts in the implementation of the EFSD, the EIB and other implementing entities should identify opportunities for pooling country-level resources to enable the adequate analysis of project potential and the development of complementary projects. The EFSD should promote operational collaboration among European and member state organisations pursuing similar aims in the same country contexts.

Even though the implementation of the EFSD has barely commenced, the political framing of the fund as an innovative approach announcing a new era for European development policy signals that the characteristics of the fund indicate how the EU's role as a global development actor is evolving. Like other blended finance approaches, the EFSD adopts a project-financing focus. It signifies movement away from government-to-government cooperation towards engagement with a wider variety of stakeholders. DFIs assume a more important operational role, and the fund's design seeks to attract more extensive private-sector participation in addressing development goals.

Although the title of the fund itself conveys a linkage to the Agenda 2030 for Sustainable Development, the fund's project emphasis and focus on a handful of thematic investment windows raise the question about how European development policy will respect and promote the holistic character of Agenda 2030 in the future. Increased project financing can be compatible with an integrated approach to cooperation if there is a concerted focus on ensuring complementarity with domestic investment initiatives, the ongoing activities of the EU and its member states, and the variety of other sources of financing that shape the context for project implementation and development prospects. The broader development finance landscape is itself evolving; thus, the EFSD is not alone in contributing to a changed development policy game. As EFSD implementation unfolds, further analysis of the factors specific to the fund – and external to it – that enable or constrain its resource-mobilisation aims will be valuable, not only in providing suggestions for how to improve the fund's impact but also in adding to the evidence base on the effectiveness of blended finance approaches.

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