

Blending loans and grants for development:

An effective mix for the EU?

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Key messages

As an 'innovative financing' mechanism, blending can catalyse public and private investment and bring other benefits to leverage EU development cooperation efforts.

Financing leveraged through grant aid does not guarantee increased or innovative development impact, e.g. 'additionality', and holds several further risks.

The potential impact of EU blending can be diluted by targeting too many policy objectives and adopting inadequate mechanisms – close coordination and proper monitoring and evaluation are critical.

The development community, and the European Union (EU) in particular, has recently put greater emphasis on the opportunities offered by 'blending', i.e. combining grant aid (usually channelled through a development finance institution) with non-grant resources. The new EU development policy, the *Agenda for Change*², includes a commitment to increase the share of EU aid through innovative financial instruments, including under facilities for blending grants and loans, and other risk-sharing mechanisms.

Blending loans and grants has become common practice in international development finance. It is one of the mechanisms regularly used by development finance institutions (DFIs) such as the Agence Française de Développement (AFD), the European Investment Bank (EIB) and KfW. It involves the combination of grant aid from Official Development Assistance (ODA) with other private or public sources of finance, such as loans, risk capital and/or equity. Such grant aid can leverage the additional non-grant financing, generally for infrastructure, energy or private sector development projects, to meet unmet investment needs. Grant aid (or grant equivalent) provided can take a number of forms, most commonly direct investment grants, interest rate subsidies, and technical assistance.

Whereas the EU institutions already have experience with blending instruments and facilities, the *Agenda for Change* promises to greatly increase commitments to this development finance modality. The EU has in recent months made efforts to engage with development finance institutions and other stakeholders to enhance its efforts on blending. Therefore, this Briefing Note surveys the EU's experience with blending and lays out the principal opportunities and risks of blending.

¹ The authors are grateful for feedback and inputs received from Andrew Sherriff and Jeske van Seters. Any opinions and errors remain those of the authors.

² See Council of the European Union, 2012.

Recent EU blending practice and experience

The European Commission (EC) considers blending as a suitable ‘innovative financing’ modality to pursue financial, non-financial and policy leverage in its development cooperation and foreign policy efforts. As such, the EU institutions have established eight facilities for blending loans and grants since 2007 (covering all regions of EU external cooperation, as highlighted in Table 1) with a view to leveraging additional finance for development cooperation and external action. According to the European Commission, the €1.2 billion grants from the EU budget, the European Development Fund (EDF) and Member States (MSs) have leveraged €32 billion of loans by development finance institutions, “unlocking project financing of at least €45 billion, in line with EU policy objectives”.³

Thus far, the majority of blending operations have provided subsidised loans to the public sector (in the form of public investment projects for approximately 90% of projects) in developing countries. For the 2014-2020 EU budgetary period, the intention is much more explicitly to use EU aid to subsidise or incentivise private sector loans. Grant support provided through blending mechanisms has so far largely been in the form of direct investments (41% of funds between 2007-2012) and technical assistance (32%), as well as interest rate subsidies (19%), as illustrated in Figure 1.⁴

Table 1. Key EU regional investment facilities for blending loans and grants

Loan and Grant Blending Mechanism	Date launched	Grant funding	Approx. # projects since 2007	Full participatory financiers (observers)
EU-Africa Infrastructure Trust Fund (ITF): 47 African ACP countries	2007	€459 million from 10th EDF + €108 mln from MS / DFIs	57	AECID, AfDB, AFD, BIO, EIB, FINNFUND, KfW, LuxDev, OoEB, PIDG, SIMEST, SOFID
Neighbourhood Investment Facility (NIF): 16 countries eligible for the European Neighbourhood and Partnership Instrument (ENPI)	2008	€767 mln 2007-13 from EU budget (ENPI) + €77 mln from MS / DFIs	79	AECID, AFD, CEB, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID
Western Balkan Investment Framework (WBIF): 6 countries	2009	€218 mln from EU budget + €80 mln from MS / DFIs	137	CEB, EBRD, EIB, KfW, WB
Latin America Investment Facility (LAIF): 18 countries	2010	€192 mln 2009-13 from EU budget	20	AECID, AFD, EIB, KfW, NIB, OeEB, SIMEST, SOFID (CABEI, CAF, IADB)
Investment Facility for Central Asia (IFCA): 5 countries	2010	€65 mln 2011-13 from the EU budget	8	AECID, AFD, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID (ADB, WB)
Asia Investment Facility (AIF)	2012	€30 mln 2011-13 from EU budget	4	AECID, AFD, EBRD, EIB, KfW, NIB, OeEB, SIMEST, SOFID (ADB)
Caribbean Investment Facility (CIF): 15 Caribbean ACP countries	2012	€40 mln from EU budget		AECID, AFD, CDB, EIB, IADB, KfW, NIB, OeEB, SIMEST, SOFID (CABEI)
Investment Facility for the Pacific (IFP)	2012	€10 mln from EU budget		AECID, AFD, EIB, KfW, NIB, OeEB, SIMEST, SOFID (ADB)
Total		€ 2.046 billion	>300	

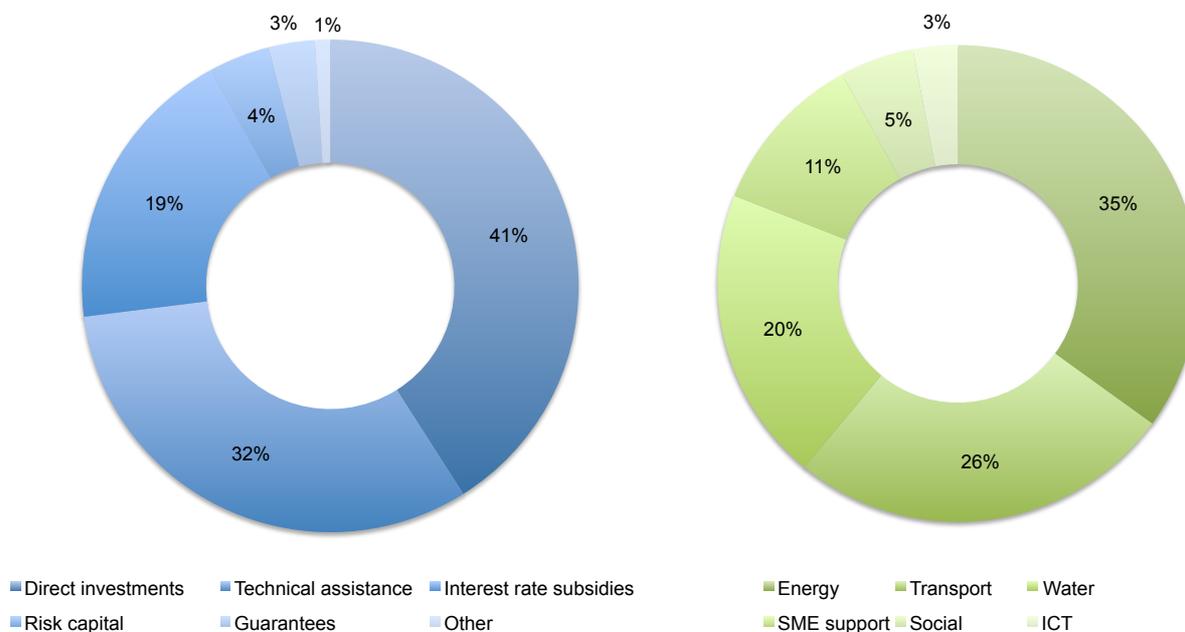
Source: adapted from Ferrer. and Behrens, 2011, supplemented with data found in European Parliament, 2013. Blank fields mean unavailable or unknown data.

³ See http://ec.europa.eu/europeaid/news/2012-12-12-platform-blending-funds_en.htm. It should, however, be noted that estimates on the amount of funding invested in and leveraged through blending facilities vary considerably. The European Investment Bank has noted leverage ratios of 8 times the EU-budget contribution, whereas the European Commission has noted leverage ratios of up to 31 times. Measures of leverage are also confused, notably confusing the grant-to-loan-component ratio on the one hand with the grant-to-total-cost ratio on the other.

⁴ See European Commission, 2013a.

Projects undertaken between 2007-2012 have principally been in the energy (35%), transport (26%) and water (20%) sectors (see Figure 2). In keeping with the *Agenda for Change*, the European Commission hopes to rebalance these priorities to provide more funding to support small and medium-sized enterprises (SMEs), the social sectors (e.g. education and health infrastructure) and ICTs – currently only 19% of projects take place in these sectors. Beyond the development policy area, facilities such as the Neighbourhood Investment Facility (NIF) and the Western Balkan Investment Framework (WBIF) actively provide support to EU enlargement and climate policies. Similarly, such blending mechanisms have a wide geographical coverage, including pre-accession, neighbourhood, and low- and middle-income countries.

Figure 1: Grant support provided through EU blending mechanisms 2007-2012 by type and by sector



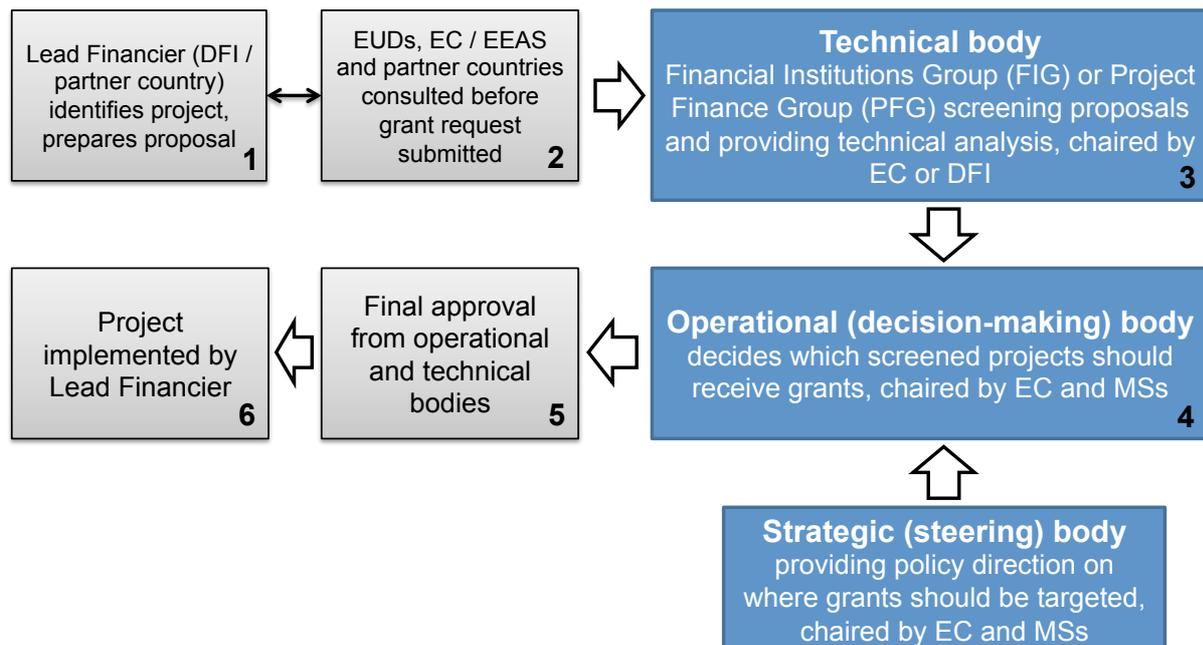
Source: EC (2013), total support provided is € 32 billion.

Whereas EU blending operations and mechanisms vary widely in their governance structure, they are generally governed and operated through a three-tiered governance structure summarised in Figure 1. Eligible finance institutions, most commonly European DFIs⁵, drive the project identification process and submit project proposals as the Lead Financier to the technical body⁶. Subsequently, projects are approved on the basis of detailed and relevant assessment criteria, while the screening of projects against the objectives of EU external policy is conducted through an internal review and consultation process with the EC and the European External Action Service (EEAS), characterised as ‘broad but shallow’⁷.

⁵ www.edfi.be

⁶ While not formalised, the EU Delegations (EUDs) are increasingly involved prior to submitting a grant request in order to ensure that project proposals are consistent with the EU’s national development strategies.

⁷ See DRN-ECDPM-ECORYS-PARTICIP, 2013. There nevertheless exist considerable differences in the structure and operation of the various investment facilities. Notably, there is variation in 1) who is involved in project design, 2) who is involved in project approval, and 3) what are the steps of project approval.

Figure 2. Basic governance structure of blending mechanisms and project lifecycle

Source: own design based on DIE, ECDPM, FRIDE and ODI, 2011 and project lifecycle identified in the following presentation: <http://www.gzs.si/pripone/37263/Evropski%20mehanizmi%20za%20podporo%20gospodarstvu.pdf>

Arguments in favour of blending

The increased interest in blending by the EU can be motivated for a number of its potential benefits. In addition to increasing the potential development impact of the EU's ODA⁸, blending is expected to increase efficiency, coordination, ownership and visibility of the EU development finance⁹, as detailed below:

- **Mobilising additional resources for development objectives** and the provision of global public goods, complementary to other aid modalities. The economic downturn in Europe and resulting increased budget constraints on donors has put pressure on European spending on development - leveraging developing financing through blending is often perceived as a means to partly address the requirement "to do more with less". This is on the one hand as a result of the potential to leverage large amounts of resources (see below), and on the other hand due to the potential of blending facilities to be an efficient aid modality, requiring little (human) resources as the workload is shared among the stakeholders involved. Collaboration among the stakeholders should also harmonise processes, thus making for lower transaction costs and reducing administrative burden for partner countries, freeing up funds for additional programmes;
- **Following through on international (political and technical) standards and initiatives in development cooperation.** The EU has committed to a variety of standards for aid and development effectiveness, notably the Busan Partnership for Effective Development Cooperation¹⁰. Furthermore, the EU is involved in political partnerships with a prominent development component such as the Cotonou Partnership Agreement¹¹ or the G8 Deauville Partnership¹². Lastly, the EU needs to give effect to initiatives it is involved in such as the UN

⁸ The ODA definitions read that if the loan and grant component are provided 'in parallel', e.g. provided and invested for separate purposes, then the loan component of a blended operation does not count as ODA. If the grant and loan components are invested jointly, and the grant component comprises 25% of the overall investment, then the loan and grant both count as ODA. However, the definitions for ODA are currently under review, and it is not always clear what components of blending are invested jointly or not – it is however sure that few blending operations meet the 25% conditionality criteria.

⁹ See European Parliament, 2013.

¹⁰ See <http://www.oecd.org/dac/effectiveness/Busan%20partnership.pdf>

¹¹ See <http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/>

¹² See <http://www.state.gov/e/eb/ecosum/2012g8/deauville/>

Secretary-General's Sustainable Energy for All (SE4ALL) initiative¹³. Blending is considered as a viable modality for achieving multiple policy and practice objectives simultaneously;

- **Enhancing the partner country governments' ownership of their development process.** In particular, further to the above, the loan component of the blended fund and the closer involvement and commitment of the partner country government in the project design and implementation process would enhance the ownership of the development assistance component and the project as a whole. The grant component can furthermore reduce the potential debt burden resulting from the investment (by complying with or differentiating the grant element to match International Monetary Fund (IMF) / World Bank concessionality requirements for investments in low-income countries), enhancing long term public sector borrowing capacity/sustainability (though does not come without debt risk, see below);
- **Opening up and incentivising entrance to new or otherwise risky markets for private sector actors.** Blending potentially allows for closing the financial gap to meet the investment needs of transformative projects that would otherwise not (wholly) be financed through loans only. These projects would have a high economic, social and/or development return (for instance the adoption of new technology) but insufficiently high private financial return or too high a risk (high degree of novelty or level of initial entry costs to the market). Blending can potentially overcome some market or institutional failures (such as unpriced externalities), allowing for a potentially increased value added for developing countries in terms of private sector development (notably banking and financial sectors). By demonstrating the long-term viability of markets (building on the experience of the European investment facilities), blending also aims to trigger crowding-in of private investment, enabling Public-Private Partnerships (PPPs) in particular sectors¹⁴;
- **Greater aid and/or development effectiveness of development aid and economies of scale.** These would potentially result from increased pooling and matching of funds and better coordination among donors and financial institutions. The process of joint design and especially screening of projects would enhance the coherence and visibility of EU aid, and promote innovative approaches and the sharing of best practices. This is in part due to the fact that blending facilities can be applied to flexibly mobilise resources at different levels (continental, regional, national) and in different sectors to complement other aid modalities, provided for effective monitoring and evaluation of projects funded;
- **Introducing efficiency gains to EU development assistance.** Blending is also expected to contribute to bring efficiency gains, as it presents a flexible development finance modality that removes the need for parallel forms of financing – it is sometimes likened to a 'one-stop shop' for development financing, though it is at present used precisely as a parallel form of financing development projects.

Blending mechanisms are thus perceived as having the potential to not only leverage additional financing for development, but also to leverage inclusive and sustainable development and thus enhance the impact and effectiveness of EU development assistance¹⁵. This is the basic rationale for the current approach adopted by the EU institutions.¹⁶

Concerns raised about blending

Blending mechanisms have, however, also raised some questions and concerns, as to their effectiveness, development impact, and potential distortive effects¹⁷. Commonly expressed concerns include:

- **The risk of financial incentives outweighing development principles.** It remains unclear to what extent projects funded through blending have a development impact. Investors, including

¹³ See <http://www.sustainableenergyforall.org/>

¹⁴ See Barton, 2012.

¹⁵ Development finance institutions (DFIs) are furthermore interested in blending because they are not allowed to offer funding from their own resources below their cost of funds. They also perceive blending as a transparent means of providing grant aid.

¹⁶ See Rudischauser, 2012.

¹⁷ See Griffiths 2012, Sprat 2013.

development finance institutions, may prioritise considerations on return-on-investment, overriding some development priorities underlying development funds through grant aid. Coordinated efforts must be made to ensure and monitor development objectives and impact of development finance through blending mechanisms; the ratio of grant-to-loan for individual projects should also be assessed in terms of financial viability and development effectiveness. Current methods of project selection and monitoring, however, may leave doubts as to who is leveraging whom¹⁸.

- **The risk of concentrating financing towards certain sectors and countries.** Private finance can be argued to follow market trends and is therefore susceptible to concentrating on certain sectors (such as the finance and extractive sector) – in times of economic crisis, financiers are likely to be more selective and risk-averse. Most private investment currently flows to middle-income countries with better-developed financial sectors and to sectors towards which private investment is already flowing. Whereas blending instruments can therefore prove useful to those upper middle income countries (UMICs) affected by reductions in aid (notably because of the differentiation approach adopted by the EU)¹⁹, it raises concerns as to whether the EU will be able to increase investment flows to low-income countries (LICs), lower middle income countries (LMICs) and fragile states. Critics have furthermore argued that only one fourth of companies supported by blending facilities (EIB, World Bank and International Finance Corporation - IFC) between 2006 and 2010 were domiciled in developing countries²⁰, which risks undermining efforts to develop the private sector in developing countries.
- **The risk of crowding-out private financing and distorting markets.** ODA grant aid could crowd out private capital under some circumstances where stand-alone commercial loans would have been viable. It may also lead to a race to the bottom among development finance institutions and donors, in an attempt to capture new market for loans through implicit subsidies. This counterproductive competition among financiers to finance perceived “good” projects may ultimately lead to inefficient loans and over-subsidisation or concessionality of loans (i.e. with too high grant-to-loan ratio). Alternatively, a concessional component may extend the expectation that markets are not commercially viable, delaying replicated or new projects. This would not only lead to ineffective ODA, but would also distort the financial market, leading to inefficient financial allocation mechanisms.
- **The risk of providing insufficient attention to transparency and accountability.** Blending mechanisms may potentially further cloud the transparency and accountability issues in the selection of projects, mechanisms of funding and flows of funds (sometimes through intermediaries in tax havens). Lack of transparency on the grant component of blended funds can make it hard to assess the value of the project compared to other financial products available. The rationale for financing a project through blending should be clearly indicated to manage market expectations (see the previous point). Too often, there is little information in the public domain on the criteria and processes of project design, selection and funding.
- **The risk of unclear or ill-defined monitoring and evaluation methods.** In addition to traditional monitoring and evaluation challenges inherent to all development projects, the assessment of blending mechanisms must include an evaluation of the leveraging effect. It should be assessed whether blending mechanisms are successful not only at raising the ratio of investment against ODA invested and the size of project, but also whether these investments have the requisite development impact and local ownership. Furthermore, it should be assessed to what extent the grant component has leveraged investment for projects that would otherwise not have taken place – the ‘additionality’ of blending. So far, evaluating the impact of these dimensions of blending has proved extremely difficult. Critics have also argued that there has been little assessment as to whether projects funded through blending facilities are in line with the national development

¹⁸ Particularly, there is concern that higher leveraged ratios (considered as something positive by the European Commission and the DFIs) will lead to (private) financing institutions having a stronger influence in the selection design and implementation of projects. See DIE, ECDPM, FRIDE and ODI, 2011

¹⁹ See Krätke, 2013.

²⁰ See Kwakkenbos, 2012.

strategy of developing countries or whether these projects have contributed towards achieving those objectives²¹.

- **The debt risks for developing countries of increasing lending.** Blending facilities primarily fund projects undertaken by developing country governments. Some developing countries, notably in Sub-Saharan Africa and the Caribbean, have high debt ratios; introducing blending facilities could potentially further increase their debt exposure, as most projects funded through such facilities have a grant-to-loans ratio of 1:4. This may affect not only the national fiscal space but also countries' ability to attract other funding, such as IMF loans, and may lead them to link more with volatile international financial markets. The degree to which the grant element of a blending operation can be differentiated to suit a country's debt burden has its limits.
- **Inefficient way of incentivising private investment and addressing risk.** In some cases, blending might not be an effective or efficient way to stimulate private investment in development-oriented projects. Often, the structure and characteristics of the loan has more bearing on the incentive to invest than the presence of a grant element. Similarly, some risk-mitigating instruments might prove more effective than a grant support in a blending mechanism.

Together, the above reflects the concern about whether blending provides any sort of 'additionality' over grant aid and loans already in use, whether this be in economic and financial terms, in project scale and timing, project quality, innovativeness or influence on national policy dialogues and reforms. Financing leveraged through grant aid does not necessarily translate into an increased development impact – concessionality does not in itself guarantee additionality.

Towards a balanced approach: advancing the EU agenda

The European Commission Communication on *Improving EU support to developing countries in mobilising Financing for Development*²² of July 2012 stressed that:

"The EU, Member States and public financing institutions should step up efforts for increased use of innovative financing mechanisms on a coherent, coordinated and strategic basis. The EU should leverage more private resources and capacities through blending mechanisms that can crowd-in additional private and public financing: i) create a private sector window within the regional blending mechanisms, ii) make greater use of risk-sharing mechanisms such as guarantees that can unlock investments and iii) promote investments through instruments that entail improved risk management and equity participation in structured funds."

The EU thus intends to step up its efforts to catalyse public and private investments, as noted most recently in the EC's *Communication on the financing of poverty reduction and sustainable development beyond 2015*²³. As interest and investment in blending mechanisms through investment facilities is set to increase during the next budgetary period, a clear rationale for blending mechanisms is yet to materialise.

To actively further the usage of blending mechanisms, the Commission set up the EU Platform for Blending in External Cooperation (EUBEC) in December 2012. This coordinating platform between the various facilities (composed of representatives of EU institutions, EU Member States, European and international DFIs) is tasked to review existing blending mechanisms and develop a common framework to measure their impact, and has delivered initial reports on this in June 2013. Furthermore, the platform will produce recommendations and guidance on how to blend public and private resources to increase the impact of EU development cooperation using existing blending and financial instruments in time for the implementation of the EU's new budget in 2014. The platform will subsequently develop key principles for blending, ensuring that blending activities are coherent, coordinated and flexible. Lastly, the platform is tasked to develop new methods of funding.²⁴

²¹ Evaluations of European investment facilities consider project identification and approval as well as the leverage ratio, but draw no conclusions on the additionality or development impact of the projects implemented. See Ernst & Young, 2012 and DRN-ECDPM-ECORYS-PARTICIP, 2013.

²² See European Commission, 2012.

²³ See European Commission, 2013.

²⁴ See <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=6981&no=2>. The work of the technical groups of the EUBEC platform is not publicly available. However, the in-depth mid-term evaluations of the ITF and NIF feed into this work – see Ernst & Young, 2012 and DRN-ECDPM-ECORYS-PARTICIP, 2013.

The opportunities and challenges of blending need to be carefully assessed, and the added value of the grant component of blending mechanism for each project clearly identified and assessed. For each project (or, more specifically, for the grant component of each project) and for each blending mechanism, **key guiding questions** should be systematically addressed, such as:

- What added value do they have beyond projects already funded by private investment, in particular in relation to development and sustainability objectives? How can this be measured and monitored?
- What is the opportunity cost of investing in blending facilities instead of the more straightforward public or private investment or other, more familiar development cooperation instruments?
- How can the funding and governance of the project be structured to ensure the appropriate incentives, collaborative arrangements and results are brought about?

With regards to the last question, it should be considered whether the structure and procedures of existing blending mechanisms are suited to effectively and flexibly manage larger amounts of grant aid and projects. Currently, investment facilities all have project pipelines that exceed their annual financial endowment, and already spend close to the entirety of this endowment – the intentions expressed in the *Agenda for Change* and elsewhere indicate that these endowments might soon increase, with estimates that up to a third of EU ODA could be invested through blending mechanisms.

It should be noted that **many of the concerns raised about blending mechanisms overlap with recurrent criticisms raised about the operations of development finance institutions**, in terms of commercial interests, transparency and accountability, monitoring and evaluation of development impact, debt burden, etc. In assessing the merits and shortcomings of blending instruments, it is therefore necessary to focus on characteristics that are specific to blending, distinct from those that concern development finance in general (by DFIs and traditional ODA). Table 2 offers an overview of the benefits and disadvantages of using blending to achieve the EU's development objectives compared to using 'pure' loans or grants.

Table 2: Assessing blending vs. pure loans and pure grants to achieve EU development objectives

	BLENDING vs. PURE LOANS		BLENDING vs. PURE GRANTS	
	PROs	CONs	PROs	CONs
<i>Economic criteria</i>	Contribute to solve the issue of debt sustainability in heavily indebted countries.	Market distortions.	Can mitigate the fiscal side effects of pure grants.	Reduced debt sustainability Risk of financial principles outweighing development policy principles
<i>Strategic / Political criteria</i>	Can finance projects with significant positive externalities but not financially sustainable, as well as solve the issue of negative externalities associated to a given project. Policy leverage especially in middle-income countries and emerging markets. Can enhance EU visibilities.	Loss of visibility of individual donors, because blending occurs at EU level.	Policy leverage, especially in low-income countries at the country sector and project levels. Can enhance EU visibility.	Loss of visibility of individual donors, because blending occurs at EU level.
<i>Financial criteria</i>	Financial leverage through risk mitigation. Can offer more flexibility with regards to disbursement conditions, initial costs or project speed.	Potential transparency issues. Risk of imprudence in recipient countries. Cannot eliminate risks but just transfer them to the EU.	Financial leverage, especially in low-income countries. Can offer more flexibility in adapting the volumes of funds to specific projects needs than pure grants.	Potential transparency issues.

<i>Operational Criteria</i>	<p>Can allow speeding up projects.</p> <p>Can enhance project quality.</p> <p>Can enhance coordination between donors and lenders.</p> <p>Can allow for knowledge transfer and demonstration effect.</p>	<p>Loss of control of individual donor.</p> <p>Potential slowdown of decision-making.</p>	<p>Can provide greater incentives than pure grants for donors to monitor funded project.</p> <p>Give donors access to project management expertise of lenders.</p> <p>Can enhance coordination between donors and lenders.</p> <p>Demonstration effect.</p> <p>Can allow risk sharing and mitigation</p>	<p>Loss of control of individual donor.</p> <p>Potential slowdown of decision-making.</p>
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Source: own design.

Practical issues and considerations on the implementation of blending instruments must also be addressed. In particular, **opportunity costs must be carefully assessed**. Leveraging loans with grants may provide vital assistance to project preparation and implementation (a third of EU grant support to blending takes the form of technical assistance, as shown in Figure 1); but it may also entail longer and more cumbersome procedures than simply disbursing the grant aid or a loan. EU financial instruments, including the Development Cooperation Instrument (DCI) and EDF, have already been criticised for having low disbursement rates. Furthermore, blending facilities do not guarantee that grant funding introduced into them will be matched by loans. While funds can of course be reprogrammed, this would further harm the disbursement rate.

Transaction costs related to blending mechanisms (management, coordination, implementation) may prove higher due to the multi-stakeholder nature of such instruments, which increases the need for coordination. An essential consideration is therefore that, although potential synergies are obvious, the different actors do not 'speak the same language'. Development actors must stay conscious of the fact that the devil is in the details as blended operations are often complex, whereas finance institutions and private investors should acknowledge the motivations and requirements of the EU institutions, including the pressure to disburse funds, engage in large-scale projects as well as for visibility and transparency.

It will also be important to consider to what degree blending facilities can be used to effect development and other policy objectives. **Criteria used for approving and prioritising projects are intransparent, in some cases also to the DFIs and partner countries involved, though blending projects consistently match regional and national priorities**. EC representatives have suggested that the investment and blending facilities can be used to further support those developing countries (generally upper-middle and high-income countries) that face reductions in ODA from the EU institutions as a result of differentiation and those countries which are able to sustainably borrow. Blending facilities could furthermore be used for regional projects and programmes, for instance regional integration and infrastructure programmes.

As it is, evaluations of investment facilities making use of blending instruments note some aspects of additionality (financial leverage, better coordination between institutions involved) but have not concretely demonstrated their benefits for achieving the EU's development cooperation objectives²⁵. While the investment facilities offer the opportunity to harness blending in order to target a wide range of policy objectives (thereby offering wide-ranging impact opportunities), **care must be taken to not dilute the potential impact of funds invested by attempting to attain too numerous objectives within too wide a scope. This will require the EU institutions to undertake a challenging 'balancing act'**, as the objective of using blending mechanisms in the *Agenda for Change* seems to be precisely to attain multiple policy objectives through a single modality ('do more with less'). It will be critical for the EU institutions and the EUBEC to develop appropriate monitoring and evaluation methods to clearly distinguish the 'additionality' of blending operations.

²⁵ See Ernst & Young, 2012 and DRN-ECDPM-ECORYS-PARTICIP, 2013.

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