Summary

We welcome the intention to improve coordination of EU development and external cooperation actions. However we urge the Group of Experts (GoE) to take a step back and reflect on the key concerns that stakeholders have raised, and ensure a proper evaluation is done of current operations before proceeding: a preliminary decision must not be rushed.

We would like to bring to the attention of the GoE the following key issues, detailed in the main sections of this submission:

- The purpose and added value of the proposed Platform – development impacts must be properly assessed, stakeholder views considered, and objectives rethought – in particular by not mixing development objectives with other objectives such as visibility.
- Blending – is this the answer? – There are a number of key concerns, including: the risk of financial incentives outweighing development principles; insufficient attention to transparency and accountability; unclear monitoring and evaluation methods; opportunity costs may be high, but are not carefully considered; and there are debt risks for developing countries of increasing lending.

We have also included annexes on lessons learned from the NIF facility and the Tblisi railway bypass project.

The main purpose of the expert group as established by the GoE is to identify the “potential benefits and costs (value added) of establishing such a Platform”, including identifying the stakeholders and then propose recommendations for the establishment or not of such Platform. However, we are concerned that the platform will be created regardless of the findings and that its key objectives will be to help establish new blending facilities, while enhancing EU visibility, rather than considering carefully the development benefits.

Background

The Wise persons panel that reviewed the EIB’s external lending mandate (ELM) recommended two long-term options for EU’s external cooperation finance, one of which was later picked up and introduced into the EIB’s ELM decision – developing an “EU Platform for external cooperation”. The most important conclusion of the Wise Persons Panel, was the recognitions that the EU needs to do more to ensure that its external assistance is in line with the aid effectiveness agenda:
“In the developing countries, the importance of aid effectiveness will become even higher, and
the EU as the largest donor worldwide, will be expected to lead actions to improve the
delivery of financial assistance in the interest of the beneficiary countries and of EU policy
objectives. Despite numerous achievements, the European external assistance remains too
fragmented and not yet fully in line with the European Consensus on Development and
with Aid Effectiveness agenda. The question of the European external assistance architecture
needs to be addressed.”

According to the Wise persons panel report “a comprehensive and simultaneous review of these
mechanisms should be carried out by end 2010 by the Commission in close collaboration with
the EIB and Member States, with the view to propose improvements and streamlining” and “On
the basis of this review, the Commission and the EIB, in close collaboration with the Member
States, should develop an “EU platform for external cooperation and development”.

The research report produced by leading European thinktanks “EU Blending Facilities:
Implications for Future Governance Options” raises further questions about the existing
blending mechanisms and identifications a number of deficiencies. Therefore more efforts in
terms of research and wider public participation inside and outside of European Union,
particularly in partner countries is needed before the formulation of the final vision for the EU
platform for external cooperation and development.

**Purpose and added value of the Platform**

In our view, before going ahead with such a decision or defining the operational structure of
such Platform, three important steps should be taken to make an informed decision:

**Assess development impacts.** A multistakeholder evaluation of the existing blending
instruments and how are they in line with the European Consensus on Development and with
Aid Effectiveness principles should be undertaken.A recent study commissioned by the UK
Department for International Development (DFID), and conducted by the Overseas Development
Institute reviewing the existing EU blending mechanisms, concludes that “whilst a sizeable
literature exists about the theoretical use of loans and grants, there is little on how it works in
practice, which methodology or procedure works best and whether a certain governance model
is more effective in reaching its objectives”. The study further points that the existing blending
mechanisms have not existed for long enough time to measure any results.

There has been no thorough evaluation measuring the development impacts of the existing EU
blending facilities. An upcoming Eurodad research report on the DFIs concludes that DFIs have
difficulty demonstrating positive causal effects in developing countries. This is partially due to
the nature of investing in the private sector, where social outputs are not normally the objective
of the private sector partner, and are difficult to measure. One of the main problems with the
monitoring and evaluation of DFI projects is that “development impact assessments tend to
begin once the key decisions, on who, how and where investments will be made, are already
determined”.

Recently the EIB developed a Results Measurement Framework (REM), to be implemented in 2012 to improve the ex-ante assessment of expected project results and report
on the results achieved. We very much welcome this development but would like to underline that this is a work in progress and its effectiveness is still to be seen.

**Ensure stakeholder views considered.** Identification of relevant stakeholders is key and their participation and views must be taken into account. The role of the beneficiaries is also unclear as they seem to be left out of the process. As it currently stands blending facilities have little or no accountability towards stakeholders.

**Reject EU visibility as an objective.** Ensuring visibility of EU actions has no development purpose and must not prevail over development impact. In fact, including this as an objective risks creating diverging incentives and weakening the development effectiveness of EU external actions. Aid effectiveness principles (as set out in Paris, Accra and Busan) – should be the main criteria guiding the decision-making of these instruments (as opposed to the current focus on how to create more instruments rather development impact).

**Blending – is this the answer?**

We have the following key concerns with the way blending has been articulated:

- **Risk of financial incentives outweighing development principles.** There are a series of concerns confirmed by the DFID commissioned research, which weighs the pros and cons of blending versus loans and grants among which is the risk of financial principles outweighing development principles and transparency issues. Despite positive results, such as speeding up of a project implementation, or mitigating social or environmental impacts, an overarching question that remains unanswered is what are the principle guiding decisions for project selection. Our research and experience suggests that too often development additionality of projects is assessed as a secondary aspect of project selection.

- **Insufficient attention to transparency and accountability.** As also confirmed by the same research, issues related to accountability and transparency of blending mechanisms should be properly addressed. Meanwhile, there should be a clear demonstration of the added value of the grant element.

- **Unclear monitoring and evaluation methods.** If the methodology for monitoring and evaluating development impact is not included at the project selection stage, it is unclear how we will know if the project will have an effect on development priorities. Effective environmental, social, and governance (ESG) assessment mechanisms are crucial to determining the financial and development additionality provided by these facilities. With them, scarce development finance can then be channelled to areas that have demonstrated success in meeting internationally and nationally agreed upon development goals. It appears that decision-makers are convinced that the mechanisms function properly based mainly on the project descriptions and feasibility studies, but not on projects evaluation and outcomes, including long lasting development impacts. In the case of the Neighborhood Investment Facility (NIF), as discussed later, as well as majority of other mechanisms, assessment of project results may be problematic due to the mechanisms being quite young. The NIF was established only in 2009. Therefore a
more counter-factual and reasonable approach should be employed before starting the promotion and replication of blending facilities.

- **Opportunity costs may be high, but are not carefully considered.** We believe that the platform should consider other forms of external development assistance that have a proven track record such as grants, whether they be through budget support or other aid modalities with a proven track record.

- **Debt risks for developing countries:** By increasing its loan based development finance through blending, EU development finance will contribute to further increasing the indebtedness of developing countries. It is our impression that this element has not been sufficiently taken into account when assessing the impacts of blending, including in the design of the EU External Platform. In the recent review of the Debt Sustainability Framework, the World Bank and the IMF expressed concern for the rising levels of private debt and recognised its potential impact on public debt vulnerability. The situation is further aggravated as the multilateral debt relief initiatives the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) are coming to an end. In this situation, no international procedure exists to deal with cases of debt distress.

Therefore without proper assessment of existing blending mechanisms we believe it would be unjustifiable and premature to use them as the basis for EU External Development Platform.

**Recommendations**

Our recommendations for the external platform are:

- Before creating a platform to promote and advise blending facilities, engage in a comprehensive review and evaluation of existing facilities. This would mean assessing:
  
  o Development impacts
  o Objectives – in particular how conflicts are managed when partners do not share the development objectives of the EU.
  o Monitoring and evaluation mechanisms.
  o Country ownership – this should be broader than just government ownership, but should assess the extent to which other stakeholders and civil society groups can participate
  o Transparency and accountability

- Ensure that the platform has clear added value in terms of enhancing the development impact of EU development cooperation. This would include:
  o Setting out how to assess opportunity costs to ensure blending is chosen only because it offers better outcomes than alternative mechanisms.
  o Avoiding proliferation of instruments – and improving coordination and coherence among existing facilities.
  o Ensuring it does not increase debt risks for partner countries

- Ensure that any platform incorporates all stakeholders in its decision making processes, with a particular emphasis on ensuring national ownership.
Annex 1 - Lessons learned from the NIF facility

NIF and problems discovered in its operation: The European Neighborhood Investment Facility (NIF) intends to match loans from European Public institutions with community grants and direct contributions from Member states to ensure sustainability leverage effect. NIF supports strengthening of interconnections between EU and its neighbors in the areas of Transport and Energy, by addressing common environmental concerns and supporting other relevant activities including SMEs development.

However, as of now, no evaluation of NIF outcomes has taken place. Despite that, the NIF together with Latin American Investment Facility (LAIF), Investment Facility for Central Asia (IFCA), and other mechanisms, are considered to form the based for EU external development platform.

NIF overall overview
A number of projects supported by NIF and funded by EBRD and EIB already receive attention from local civil society organisations due to their controversial character, including serious social and environmental implications (cases such as the Ukrainian Transmission Lines or Tbilisi Bypass project). As those projects are funded by EBRD and EIB, a higher level of advocacy and activities were aimed at the IFIs in order to prevent and mitigate some of the negative impacts of these projects, whereas NIF participation has often gone unnoticed.
In majority of cases by now, the NIF money is invested in environmental, social and technical studies, and it is essential that NIF (and therefore EU) acknowledges full responsibility and accountability for support of implementation of controversial projects.

The operation units of local EU offices represents essential focal points to liaison with public for the projects funded through NIF, as they provide their opinion regarding the projects funded by NIF, as well as EBRD and EIB and further monitoring of implementation. However, in best case scenarios when there is such public consultation organised by the EC, that has been done on a stage when project are at least preliminary approved by NIF, and all efforts are directed into mitigation of the risks rather than discussing the actual need of the project, its environmental and social impacts or even, seeking alternative sustainable solutions.

That poses risks to undermine rather than ensure positive EU visibility. Rather than following often non-transparent and undemocratic practices of the recipient neighborhood governments (as experienced by local CSOs), the EC should rather provide opportunities for a real public participation in democratic decision making.

The Tbilisi railway project case study provided in Annex 2 provides one of the best examples how the support of environmentally, socially and even economically unsustainable project could lead not only towards of project failure, but also increase the concern regarding the EU funds.

NIF management and Transparency issues
The NIF is managed by a number of committees chaired by EC and composed representatives of Member States, Partner Countries and Financial Institutions. The information about NIF activities is scarce, there are no procedures or even possibilities for public participation, taking into account the fact that the NIF does not publish an agenda or meeting notes, nor detailed
description of decisions on particular projects. The fact that the annual report serves as a major source of information does not raise confidence in the transparency of the mechanism. There is no information of the decision-making process in the facility and the projects are published on its website only after they have been approved.

**NIF Project selection criteria**
The project selection criteria are not clear and leave room for confusion. According to the DFID commissioned research, the NIF alongside with other facilities, experience “lack of formal and specific guidelines or criteria”. In addition, despite the fact that several facilities have similar templates “their role, the extent (and stage in the process) where they are discussed and decisions are made as to the suitability of, for example, grant shares and instruments is not clear”. Together with the fact that facilities “lack transparency as the data they contain is also not made public”, the research conclude that it is hard to identify whether facilities has effective decision-making toolvi.

**NIF review and evaluation of its impacts**
The promotion and multiplication of NIF type of mechanisms (LAIF, IFCA and others) seem to start without any deep assessment that would be based on: 1) the economic and social effects of the blended project; and 2) the exact contribution of the grant component and follow participatory consultation.

**Annex 2. Tbilisi Railway Bypass Project**

In May 2010 the European Bank for Reconstruction and Development and the European Investment Bank approved an Euro 100 million credit each for the Georgian Railway Ltd (100% state-owned company) to implement the Tbilisi Railway Bypass Project. The NIF grant was envisaged in way to respond the accordance the environmental concerns raised during the public consultation period.

The project aims to increase the efficiency and safety of railway operation, however the project were problematic both from environmental and social points of view. The aim of increase the safety of railway operations has been undermined through relocation of railway in densely populated district, thus posing a threat to the local population because of transit of hazardous freights (oil, oil products), as well as due to the fact of the location of new railway line nearby of Tbilisi Sea, the major drinking water supply for Georgia’s capital. The project does not envisage the cleaning of a abandoned territory from hazardous waste, neither calculate its costs; Therefore the estimation of total economic costs of the project and its positive impact was rather impossible.

It not clear what was the rational from the side of the Banks and NIF to finance a project that ultimately has no economic benefits (in accordance with its own documentation), while it does not even ensure the ultimate goal of the idea – to increase the safety of Tbilisi citizens from railway operations.

It should be also noted that Government of Georgia refused to take the subsidized EIB loan and the management of Georgian Railway claimed that the company would use USD 250 million Eurobonds issued on July 22, 2010 (percentage rate 9.875% per coupon).
Meanwhile project implementation starts to raise more concerns that provide any solutions. It failed to provide at least temporary employment opportunities – the railway is being constructed by the Georgian-Chinese company Khidmsheni and basically the Chinese manpower is used. As a result of poor environmental and social impact assessment and resettlement action plan hundreds of people experienced the involuntary resettlement (both physical and economic) without adequate compensation and cases of illegal expropriation. Actually rights more than 860 landowners along the line have been violated by railway company. Affected communities openly accuse Georgian Railway that it lower market price to landowners and forcing reluctant one to sign transaction through intimidation methods.

EBRD starts to receive the complaints to its resource mechanisms, as well claims to investigate corruption from Tbilisi City Council Opposition fraction. As a response the audit and investigation process from the side of EBRD start, as well as the problem solving mechanism between EBRD, Georgian Railway and affected people has been established. While the findings of investigations and audit were not public, EBRD was forced to postpone disbursement of loan before all claims would not be cleared.

As response to pressure to follow EBRD’s social and environmental policy, in November 2011 Georgian Railway announced changing in its financing structure and refused EBRD’s loan, as according to the company web site “the available revenue structure of Georgian Railway LLC doesn't need to attract any additional credits, and there was no necessity in using the EBRD credit. The project was financed by Georgian Railway's own resources and the company hasn't used the money allocated by EBRD”vii.

The public consultations around the project were flawed, that has been raised by Georgian civil society groups almost all stages of the project development, including the scoping. The first announcement of the project idea was in August 2009, while according only accidently available project document, by the beginning of November 2009, the project was already provisionally approved by the NIFviii. The provisional approval takes place even before the ESIA was conducted.

It should be taken into account that local EU office and CSOs in general have very good relation, therefore operation unit makes its best to incorporate in their notes the concerns of CSO groups regarding the project environmental and social issues. However, Itself idea of project needs, its economic feasibility and benefit for country never has been discussed, as it fall out of the scope of operation unit, while NIF structure designed in a way that it successfully can ignore any public concern.

Taken into account that project was from the beginning widely promoted by Government stressing participation of European financial Institutions and EU, as well follow up drastic impacts and outcomes of the project, it was widely reported within Georgian and International mediaix. However, its really doubtful that project increase the EU visibility in positive way.

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i  Mid - Term Review of EIB external mandate – Report of the Steering Committee – Feb. 2010, p. 41, paragraph 6.3
EU Blending Facilities: Implications for Future Governance Options (January 2011) ECDPM et al

“EU Blending Facilities: Implications for Future Governance Options”, European Think-Thank Groups, January 2011

Norwegian Church Aid, Investing in Private Sector Development: What are the Returns, 2011

Table 3: Assessing Blending vs. Pure Loans and Pure Grants

EU Blending Facilities: Implications for Future Governance Options, January 2011, European Think Tank Group, The German Development Institute / Deutsches Institut für Entwicklungsopportunismus (DIE), Bonn, Germany;
The European Centre for Development Policy Management (ECDPM), Maastricht, Netherlands;
Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), Madrid, Spain;
The Overseas Development Institute (ODI), London, UK.

http://www.railway.ge/?action=news&lang=eng&npid=209
http://www.icex.es/partenariadogeorgia/Proyectos%20del%20BERD%20en%20Georgia.pdf