European Parliament study on “The use of development funds for de-risking private investment”

Submission to TEPSA

1 Outline of research approach
The use of ODA to mobilise private finance is increasingly seen as essential to meet the SDGs. Numerous development agencies have set up diverse de-risking initiatives to attract private investment to development projects. Such measures have reportedly been successful in raising private finance\(^1\) and in improving development outcomes.\(^2\) There are, however, concerns with this approach. Funds may be channelled to private shareholders and fail to go to sectors and regions where they are most needed.\(^3\) Funds remain insufficient to plug the SDG funding gap.\(^4\) Blending can create longer-term risks for development agencies and costs for recipient governments. The full impact is often not captured in traditional evaluations. Furthermore, there is an opportunity cost to using ODA in this way and blending may promote the perspective of financial investors over development outcomes. Public oversight over aid may be loosened.

This project proposes to:
1. Map the global blended finance landscape: What development agencies are using what types of instruments and at what kind of scale? How does the EU fit within this landscape? Where is blended finance going (what sectors, what locations, what is reaching high-risk and fragile states)? Who are the private agents involved (e.g. local/global; industrial/private equity)?
2. Provide an assessment of how the EU’s blending facilities contribute to the pursuit of the EU’s development objectives. This includes a critical assessment of existing evaluation methods of blended finance.
3. Evaluate the proposal for the EU MFF 2021-2027 and external financing instruments with respect to the objectives laid out in the EU’s development policy.
4. Make policy recommendations.

2 Methodology
The research will follow a mixed-methods approach with the following main phases:

*Phase 1: Inception and scoping*
- Review of primary and secondary literature including academic journals and grey literature from Development Finance Institutions, and major actors in blended finance (including OECD, EU and World Bank).
- Review and evaluate relevant databases and data sources, seeking access and permissions to these where appropriate. Anticipated sources include: DEVCO; Annual reports of financial institutions; databases such as, Convergence.finance; academic papers such as Benn, Sangaré and Hos (2017); data from international agencies such as in the UNCDF and OECD joint reports, and the Overseas Development Institute (ODI).

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\(^1\) In the last ten years EU grants of E3.4bn have leveraged loans of E26.2bn which have unlocked investment of E57.5bn in more than 380 projects in EU partner countries, mainly in energy and transport (European Commission, accessed [here](#)).

\(^2\) See for example the EU Commission 2016 Evaluation of Blending available [here](#).

\(^3\) Overseas Development Institute 2019 report available [here](#).

\(^4\) Convergence, 2019, available [here](#).
Phase 2: Desk Study
Using the sources identified above, we will conduct an empirical analysis along three major strands, triangulating data across sources where appropriate:

- Mapping of global blended finance landscape, by recipient countries and sector, key institutions and de-risking instrument.
- Analysis of existing practices of evaluation and assessments of de-risking mechanisms.
- Review and evaluation of future policy directions for the EU in the context of MFF 2021-2027 and external financing instruments.

Phase 3: Outreach
Based on our findings in 1 and 2, we will follow up with structured desk-based interviews with key stakeholders and key persons to consult. These will largely be carried out by phone or Skype.

Phase 4: Synthesis and write up of final report.

3 Research team
Six of us will collaborate on this project. Our team brings together a wealth of expertise with extensive relevant experience including in economic development, international finance and aid policy. Dr Bayliss will be the main contact person as the Team Leader, responsible for the overall coordination of the final report. The team will work together throughout the project but we have divided the main workload roughly into two components with three of us working on each in parallel:

- Mapping of global blended finance landscape and future directions for EU MFF: Dr Bonizzi, Dr Sial and Dr Van Waeyenberge
- Critical assessment of evaluation of blending and de-risking: Ms. Laskaridis, Dr Bayliss and Dr Dimakou

Based on these work segments, the team will all contribute to the evaluation of the EU MFF 2021-2027 and to policy recommendations for the final report.

We have all collaborated in different ways in the past and we believe that our configuration of expertise offers an excellent way of managing the demands of the study in the short time available.

October 2019