caritas europa

April 2020

Position Paper Summary

Caritas Europa
EU Blended Finance for Development
Summary

Blended finance, a combination of public and private finance, has been increasingly used in the last decade as part of the EU's Official Development Aid (ODA). The new European Commission (EC) is expected to keep relying on it as part of its European Fund for Sustainable Development Plus (EFSD+) within its 2021-2027 budget, currently under negotiations.

Caritas Europa wants to contribute to the discussion with this position paper which questions the effectiveness of blended finance as a tool to achieve the goals of Agenda 2030, particularly poverty eradication.

Our main concerns about using ODA in blended finance are:

1: Lack of emphasis on excluded and marginalised groups

Blended finance tends to target groups that have other options such as existing bank customers, while the most marginalised people such as small entrepreneurs or those working in informal jobs are often overlooked.

2: Insufficient added value in terms of development and good use of public money

Blended finance projects tend to prioritise economic growth and financial return over development impacts. Since blended finance uses public resources, the risk is that less public money would be available for projects that directly focus on poverty eradication.
The amount of public money invested in blended finance projects is higher than the amount of private resources, and this is particularly so in low-income countries. In some cases, there has been evidence that the private finance did not need the public investment to go ahead with the project.

3: Lack of consideration for development effectiveness principles

ODA must respect the principles of country ownership, transparency and accountability. In reality, blended finance projects often have little or no relation to national priorities in the country. There is also a lack of independent complaint mechanisms to ensure that actors involved, including donors, can be held accountable by local communities and others.

4. Lack of human rights, environmental and social safeguards in new EFSD+

The proposed EFSD+ offers less guarantees of protection of human rights and environmental and social standards than the existing ESFD. This is particularly worrying given the absence of other applicable European regulations that could safeguard blended finance projects.

5: Use of ODA to prevent migration to Europe

The EFSD (from 2021 onwards the EFSD+), was in part meant to address the root causes of migration through economic growth and employment opportunities in developing countries, particularly in Africa. Job creation in Africa due to blended finance projects should be focused on achieving Agenda 2063 and not on preventing migration to Europe.

6: Insufficient ODA going to Least Developed Countries (LDCs)

Instead of investing in LDCs and the parts of the world most in need of development assistance, most blended finance projects target lower-middle- and middle-income countries, where economic returns are more likely.

7: Increase in tied aid

Tied aid is ODA given with the condition that it must be used to buy goods or services from companies in the donor country. Tied aid risks putting the interests of private companies from rich countries before those of people living in poverty in developing ones.

8. Poor monitoring and evaluation of the socioeconomic and development impacts

The results of blended finance projects are currently evaluated based more on financial indicators than on positive or negative impacts on local communities. This is partly because many donor countries lack guidelines on how to evaluate these projects.

Our conclusions and recommendations:

ODA should be used directly for the provision of social services, country-led policy reforms, and the strengthening of institutions through budget support and other grant modalities. This kind of ODA is more transparent and has a bigger potential to deliver development than blended finance.

Nevertheless, given the strong trend in support of blended finance, Caritas Europa would like to see the following recommendations taken into account when mixing public and private finance. This would at least ensure that blended finance projects do no harm.

The European Commission should ensure that all blended finance projects financed under the EFSD+:

Recommendation 1: Include marginalised and minority groups
Include marginalised groups and are designed to address the local realities. Particularly women and youth must be included not only as receivers but also as co-designers, partners and implementers of projects.

Recommendation 2: Adhere to the development effectiveness principles
Donors' commercial interests should not drive project selection decisions.
To achieve ownership, projects should be in line with national and local priorities. Also, civil society and local communities should participate in the decision-making process.
Independent complaint mechanisms should be established for every project and should be easily accessible to local communities to ensure transparency and accountability.

Recommendation 3: Have sufficient development and financial added value
There needs to be clear demonstration that blended finance enables faster or better development impacts than public or private sectors alone.

Recommendation 4: Human rights, environmental and social safeguards
The future EFSD+ should contain at least the safeguards found in the current EFSD relating to the climate, environment, human rights, and equality between men and women. It should also contain reference to an effective and accessible redress or grievance mechanism so that victims of human rights violations have access to justice and can hold the donors and other implicated actors to account.

Recommendation 5: ODA is only spent to achieve development objectives and not to prevent migration to Europe

The right to migrate is a human right. Development aid, where it links to migration, should only be used in order to ensure that right. All development aid should contribute to the eradication of poverty, to fighting inequalities, and to promoting integral human development.

Recommendation 6: Draw up guidelines on how to reduce the risk of increased tied aid

The EU must clarify how the increased role of the private sector in development relates to commitments on untying aid. The complexity of blended finance makes it easy for donors to get away with tying their aid. The EU should consider, in consultation with civil society, drawing up guidelines to prevent aid tying.

Recommendation 7: More research on the added value of investing ODA in blended finance

We need to better understand and think carefully about the added value of investing ODA in blended finance. The financial and development benefits must be clear and measurable.

Recommendation 8: Improve the monitoring and evaluation of the impacts of blended finance initiatives

Once a project is being implemented on the ground, it should be monitored. This monitoring should be based on the development effectiveness principles (ownership, transparency and accountability) and on the expected development and financial benefits. All information on the monitoring and evaluation of these projects should be made public and used to improve future ones.

Find the full position paper here