European NGO confederation for relief and development

A CALL TO SAFEGUARD PUBLIC SERVICES AND SUSTAINABLE BUSINESSES IN LEAST DEVELOPED COUNTRIES

Policy paper on EU blended finance in LDCs

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May 2021

Official Development Assistance (ODA) to Least Developed Countries (LDCs) remains a scarce resource: EU ODA to LDCs in 2019 was only € 13.8 billion (0.10% of GNI). The EU remains far off-track from the target to disburse 0.15%-0.20% of Gross National Income (GNI) towards LDCs.[1] Globally, from 2012-2018, close to €11 billion of private investments to LDCs were leveraged through official development finance.[2] While, this corresponds to only 6% of private sector finance mobilised for developing countries – it still represents an important share of overall investments available in LDCs.

EU donors insist that blending is a crucial tool to fill the annual gap to finance the Sustainable Development Goals (SDGs). Under the new European Fund for Sustainable Development Plus (EFSD+) – the financial arm of the EU External Investment Plan (EIP)[3] under the EU multiannual budget 2021-2027 – the EU puts a strong emphasis on LDCs and fragile countries.[4] The EU foresees mobilising half a trillion euros under EFSD+ and has put blending and guarantees[5] at the centre of Global Europe (formerly "NDICI"). Seen together with the Team Europe approach,[6] the EU is gearing up to present itself as a partner of preference in an increasingly competitive development and investment landscape.[7] In fact, Global Europe's guarantee option of up to €53 billion keeps pace with recent US efforts, such as an investment cap of US$60 billion of the Development Finance Corporation which openly competes with China and emerging players in LDCs and other challenging markets.

At a time when funding for public goods and access to social services for the most marginalised countries and people are under the spotlight, this paper examines the sectors, actors and modalities that are best suited for LDCs to achieve crucial SDGs. With a particular focus on EFSD+, the paper also reviews accountability structures and examines the extent to which the existing sets of voluntary principles – in the absence of robust binding legislation – can produce meaningful behaviour change for market-driven private sector operations in a development environment.

1 European Commission (2021), Team Europe increased ODA to €66.8 billion as the world's leading donor in 2020. For a detailed analysis of EU aid to LDCs, see: CONCORD (2020), The importance of keeping commitments.

2 OECD (2020), Blended finance in the Least Developed Countries 2020: Supporting a Resilient COVID-19 Recovery, p.20; N.B. Data in USD (USD 13.4 billion) was converted into € as per World Bank data on official exchange rates for the period.

3 The EIP also works through technical assistance and investment climate support to attract investors. All activities are covered by the budget of the Global Europe geographic programme.

4 According to the EFSD operational report, blending and guarantee operations from 2017-2019 in Sub-Saharan Africa have managed to cover most LDCs in the region.

5 Blending is a diverse mix of public & private finance, increasingly used to subsidize, guarantee and provide loans and other financial instruments to profitable operations through ODA. For details see K. Bayliss et al.(2020), The use of development funds for de-risking private investment: how effective is it in delivering results?; Study requested by the European Parliament DEVE committee; S. Kapor (2019), Billions to Trillions – A Reality Check, Stamp Out Poverty; S. Attridge & L .Engen (2019), Blended finance in the poorest countries, ODI.

6 Focused on strengthening the visibility of EU institutions' and MS' collective contribution to COVID-19 recovery efforts.

7 Against the backdrop of growing geopolitical issues at stake, it aims at positioning itself through a substantive investment package at the sixth AU-EU summit in 2021, as illustrated here: European Council, Conclusions, 15-16 October 2020.

SECTORS, ACTORS AND MODALITIES FOR SUSTAINABLE DEVELOPMENT IN LDCS

The 46 LDCs, which are mostly African, represent only 14% of the global population. However, they host half of the people living in extreme poverty in the world. In 2020, many painfully achieved, positive results in poverty reduction were reversed and, in 2021, the number of people in extreme poverty in is expected to increase by up to 150 million. Decisive trends in sustainable development, such as rising education expenditures, have been overturned. The people facing hunger every day is estimated to have risen from 690 to 822 million in 2020. With women active at the forefront of care work, more exposed to domestic violence and job losses, the impact on women and girls has been especially negative.[8] LDCs have suffered disproportionately from the socio-economic consequences of the COVID-19 pandemic. Not only has the crisis been a harrowing reminder of the fragilities of health systems that have been undermined for decades, it has also undercut domestic revenues and public services for peoples with hardly any access to social protection and services. The unprecedented relief plans adopted by high-income countries are simply not accessible to LDCs, which are governed by much stronger financial and structural constraints at internal and multilateral level and often have significant shares of their budgets tied to debt service.

Investments that are financially sustainable in the longer term will create lasting jobs and scale up productivity in the real economy. As the COVID-19 crisis has painfully recalled, private enterprises cannot guarantee either universal access to, or replace public investments in, critical services and goods that provide crucial long-term prospects for the graduation from poverty. SDGs financing has to be addressed through deep reforms of a global economic and financial architecture that continues to exclude LDCs and prevent them from mobilising sufficient domestic resources. Such reforms must be combined with cohesive national strategies that allow the mobilisation of appropriate types of domestic and international finance for the right sectors. Their development impact has to be ensured through institutional and social accountability. EU donors should therefore carefully consider where and how they contribute to partner countries' policies apt to achieve the SDGs by 2030.

THE SECTORS: BLENDED FINANCE RISKS SEVERELY INFLATING COSTS OF PUBLIC SERVICES AND GOODS IN LDCS

The OECD and other international institutions promoting blended finance emphasise that blending bears particular risks for LDCs.[9] While there is no clear move to exclude specific sectors from ODA financed blending operations, platforms like Convergence and UN SDSN suggest that blending should prioritise "investable" sectors"[10] – which is not the case for public goods and services. A minimum safeguard against such risks should be to limit blending operations to those areas where they can add value to the local economy, allowing public funding to prioritise development impact in other sectors. This should prevent blending operations in core social sectors such as health, education and social protection (SDGs 1, 3, 4, 5 and 10). It should also significantly limit blending for sectors that touch upon public goods (e.g. natural resources) and infrastructures *(see figure 1 for an illustration of what this distinction could look like).*

Core social services to ensure health, education and social protection are traditionally financed by public funds in high income countries, but already require significant shares of private customer contributions in low and lower middle income countries. The main argument brought forward for blending operations in these areas, mostly implemented in the form of Public-Private Partnerships (PPPs), is the need to enhance service quality. However, evidence from a number of LDCs has shown that monetising these sectors leads to excessive costs and widens already existing inequalities.[11] Examples like the Lubowa Hospital in Uganda or the Queen Mamohato Memorial Hospital in Lesotho show that such schemes benefit only a small share of the population while other structures in rural areas are deprived of funds. In the education sector, national open-door policies for private investors have increased the number of private schools and universities without guaranteeing universal access to them – see textbox 1.

8 CARE (2020), Building Forward: Creating a More Equitable, Gender-Just, Inclusive, and Sustainable World.

9 OECD (2018), Making blended finance work for the sustainable development goals and OECD/UNCDF (2019), Blended Finance in the Least Developed Countries 2019, OECD Publishing, Paris.

10 See discussion of different options in Gunnel Axelsson Nycander (2020), Blended Finance: Finding its right place, ACT Alliance.

11 For a detailed analysis see AFRODAD (2018), Privatisation of Education and Health Services in Southern Africa.

Textbox 1 – CASE STUDY:
PRIVATISED EDUCATION IN HAITI

In Haiti, the National Education Fund was launched in 2011, promising free primary education for all children by levying taxes on international phone calls and money transfers. However, its monthly subsidies to private schools were widely criticised for their opaque administration, the regressive taxation implications and further privatisation of schools without guarantee of quality education. Ten years later, the country's education system (with 90% of schools being private and of mixed quality) has changed very little. In the framework of the Team Europe initiatives a new PPP for the digitalisation of the education sector is in the pipeline.

In practice, investors remain attracted to sectors with the highest revenue prospects. The EFSD operational reports are a meaningful source of information about education and health in LDCs.12 They revealed that none of the blending projects in Sub-Saharan Africa between 2017 and 2019 has focused on health, education and other social sectors (vs. 7.9% in the EU Neighbourhood). In view of the serious risks detailed above, the exclusion of these sectors should become a standard under EFSD+.13 Sectors that have attracted most funds under EFSD were transport (43.6%) and energy (34%), while agriculture (6.7%) and private sector development (7.9%) received some, but much lower levels of funding. In fact, small businesses and agriculture were mainly financed through the guarantee scheme which supports the loan and equity portfolios of European and International Financial Institutions.

THE ACTORS: SUSTAINABLE & INCLUSIVE BUSINESS MODELS SHOULD BE PRIORITISED

Provided that the right regulatory framework, in both the host and home country of the investor, is in place, the private sector can play a crucial role to achieve sustainable development. It can create decent employment in a green economy, boost local and diversified industries, enhance production capacities and help constitute a domestic revenue base. When development assistance is disbursed through the private sector (through procurement or blending instruments), it is particularly important to distinguish between companies that have sustainable and inclusive business models (SIBMs) and those which do not.

Figure 1: Investable SDGs in LDC specific contexts; source: CONCORD

It is crucial that the leveraging of private investments incentivises investments in international and, especially, domestic enterprises that promote sustainable and inclusive business models (SIBMs), low-tech local solutions, and inclusive value chain approaches, while respecting gender equality targets[14] in LDCs. This is true for all sectors – including investments in transport, energy and agriculture projects. Driven by a social and environmental mission, such businesses put long-term value creation before profit and work with participatory decision-making structures. The informal sector, which is the backbone of most LDC economies, often pioneers new, inclusive, green activities such as off-grid renewables and agroecological agriculture. However, initiatives in the informal sector may lack access to credit[15] and tenure. Support should be prioritised for inclusive business models that engage local stakeholders, strongly embed environmental and social dimensions in the company's governance and mandate, and reinvest the income generated in communities. When EU donors partner with local companies, they should prioritise companies that pay fair salaries and work through participatory decision-making structures in order to build more resilient local economies.

Many energy infrastructure projects, at the centre of the EU External Investment Plan (EIP) and the Comprehensive Strategy with Africa, pursue a tempting promise to jumpstart a green transition and counter Chinese investments.

12 According to the 2019 Operational Report, 77.6% of all projects in Sub-Saharan Africa were channelled to LDCs.

13 Instead, the language around the exclusion of social services has been weakened for EFSD+. The 2017 EFSD regulation (Par. 23) clearly states "The EFSD Guarantee should not be used to replace government responsibility for providing essential public services", while the Global Europe regulation only recommends (Par.65) "The provision of essential public services should remain a government responsibility". None of the regulations includes restrictions for other blending modalities or PPPs in these areas.

14 In line with the EU Gender Action Plan III 2021 – 2025, 85% of all blending operations need to respect gender equality as laid out in the OECD Gender Markers G1 ("Gender Equality is and important and deliberate objective [...]" and G2 ["Gender Equality is the main objective of the project/programme [...]". The 2020 Implementation Report of the EFSD, External support study found (p.46) that only 37,5% of a sample of projects analysed paid attention to gender equality (G1&G2).

15 Oxfam (2017), Impact investing: Who are we serving?

The falling costs and improving performance of renewables, particularly solar and wind, offer opportunities to ensure that poor and rural communities can transition to a sustainable energy system. However, in LDCs, remote area projects are normally considered "economically non-viable" due to high infrastructure costs, scattered households and low disposable income.

Since decentralised renewable energy access is key for smaller scale, local actors,[16] the EFSD+ should primarily seek to support local economic actors in "investable" sectors as opposed to European and multinational enterprises and other large-scale investors that risk severely inflating the costs of projects, goods and services, and thus undermining universal access. This also means that the infrastructure sector would benefit much more from joint efforts to increase public domestic resource mobilisation in LDCs than from the use of scarce ODA funds to mitigate risks for hesitant investors.[17]

THE MODALITIES: GRANT-BASED FINANCE REMAINS CRUCIAL FOR LDC GOVERNMENTS AND CIVIL SOCIETY ORGANISATIONS

The EU uses mostly grants and guarantees to leverage private investments in the Sub-Saharan Africa region. Over 2017-2019, 71.5% of the €1.8 billion expenditure in the EFSD's 78 blending projects in the region were investment grants and 14.9% were directed towards technical assistance.[18] This is slightly more than the €1.2 billion of general budget support disbursed by EU institutions to LDCs over the same period (2017 – 2019). While EU institutions use more budget support than other EU MS donors, the share of budget support in overall aid allocations has declined over the past decade. In 2019, it was at an all-time low of €359 million, less than 10% of overall disbursements to LDCs.[19] The growing use of private sector instruments and of ODA loans[20] risks limiting funds to LDCs in spite of increasing ODA budgets at EU level. Blending operations should not divert more aid away from LDCs governments, local CSOs and the communities that need it most.

Textbox 2 – CASE STUDY: STRENGTHENING SOCIAL SPENDING AND ACCOUNTABILITY IN ZAMBIA

In recent years, with the assistance of NORAD's tax and development programme, Zambia increased the share of tax revenues especially from copper mining. Civil society organisations played an active role in holding the government accountable for its mining revenue, but report that it is extremely difficult to obtain funding for activities that ensure government accountability. As a result of the active role of CSOs holding the government accountable, Zambia was able to increase spending on social services which – contrary to other countries – was also maintained in the years following the decrease in budget support. However, as a consequence of the COVID-19 crisis, commodity prices fell and Zambia defaulted on its Eurobond debt payments at the end of 2020. Owing to a likely call for greater austerity, it now risks eroding the achievements in health spending over the past decade. (Sources: DEval, NORAD and interviews with Zambian CSOs).

Looking at 2018 GPEDC monitoring data, the use of country systems (indicator 9b) has fallen for LDCs (from 37.4% in 2016 to 33.7% in 2018) and is particularly low in Africa (28.1% in 2018). Meanwhile, the share of tied aid is growing in most LDCs.21 The low share of ODA funds going through public institutions, national systems or towards local organisations and financial institutions are a missed opportunity for stronger democratic ownership and coherent policies that respect all four dimensions of sustainable development. It is therefore crucial to recall the evidence base supporting other modalities that EU donors should use to channel their ODA to LDCs. Direct grants must stay the norm for LDC contexts.22 In projects that touch upon human development, modalities that are implemented through public institutions and support local stakeholders to hold governments accountable should be the priority. During the COVID-19 pandemic, support to partner country CSOs or direct cash transfers would have been essential.

16 For a detailed analysis, see: Christian Aid (2019), Shifting our energy system: Working on both sides of the equation

17 Domestic resources remain, undoubtedly, the most appropriate resource to ensure LDCs can guarantee the well-being of their people, respect human rights and achieve the SDGs.

18 EFSD (2019), Operational report.; An additional €1.5 billion was allocated to guarantees (out of which 67% for SSA).

19 From€3.2 billion in 2015 to €4 billion in 2020 for EU institutions, From €12.3 billion (2015) to €14.2 billion (2020) for all EU donors ; Unless otherwise indicated, data is sourced from EU Aid Explorer. [last visit April 28th, 2021]

20 According to OECD CRS data, ODA loans from EU institutions to LDCs have more than doubled between 2017 (USD133 million) and 2019 (USD315 million).

21 GPEDC, 2018 Monitoring Dashboard. [last visit April 28th, 2021]

22 This also corresponds to the March 2021 Opinion of the European Parliament Committee on Development on the financial activities of the European investment Bank that "grant-based financing [should be] the default option, especially for LDCS, […] Blending, guarantees or any loans [should not be prioritised] over grants, since they fall short of the SDGs and could increase countries' burden of debt."

EFSD+: OPPORTUNITIES AND CHALLENGES

The EFSD+ comes with opportunities and challenges. A challenge is the fact that the EFSD+ does not adhere to a particular distinction between sectors and countries that are appropriate for blended finance. It is linked to a diverse and highly ambitious list of objectives related to sustainable and inclusive economic, environmental and social development. It explicitly includes social infrastructure, health, human capital and human rights.[23] In addition, it emphasises that "special attention shall be given to [LDCs and other fragile contexts]".[24] A critical issue is, however, that it does not provide specific instructions on spending modalities, on safeguards against debt creating mechanisms – which is particularly serious for LDCs.[25] Within the €60.4 billion envelope of the dedicated geographic programme, a maximum of €10 billion can be used for the EAG, but it remains unclear how much of the available funds will eventually be channeled towards the private sector.[26]

While Global Europe puts forward a high number of standards and targets, a clear risk is that the respect for them will rely on a set of reporting and monitoring guidelines that remain sketchy and depend to a large extent on the "counterparts" for each operation. Two are the challenges here: **first, it is especially worrying as there has not been an independent evaluation of EFSD blending and guarantee mechanisms,** which have engaged €5.1 billion since 2017. Second, there is not tangible evidence on the contribution of these funds to specific SDGs – in any partner countries, including LDCs.[27] Worse, an additional challenge has been identified: while the high ambitions of EFSD+ will have to drive big investment decisions rather quickly, there is so far no public account of the negative impacts that any of these projects may have caused.

Figure 2: Global Europe allocations

Total 2021 - 2027 budget: €79.5 billion		
€60.4 billion **Geographic Programme incl EFSD+/EAG** • Neigbourhood: min. €19.3 b • Subsaharan Africa: min. €29.2 b • Other partner regions	€6.4 billion **Thematic programme**	€3.2 billion **Rapid response actions**
Emerging challenges & priorities cushion: €9.5 billion		

Source: CONCORD based on Commission, 03/2021

In an increasingly competitive global investment landscape, the context of LDCs raises serious questions about the supply-driven allocation of funds and the standards applied to investees. The ambition to mobilise half a trillion euros over 2021–202728 exceeds all records of leveraged funds globally.[29] Claims that the EFSD has mobilised €50 billion through its blending and guarantee operations are in fact only an estimate of future revenues building on a leverage ratio of 10.[30] Especially in LDCs, returns of this kind are simply not achievable. Across all blending facilities there is not yet any evidence that blending operations actually have the capacity to reach such ratios and evaluations of existing projects find ratios of less than 1.[31] [32] The European Court of Auditors considers current estimates as "insufficiently reliable" and questions the additionality of several blending grants.[33] The pursuit of unrealistic quantitative targets risks undermining the quality, long-term development impact of projects, especially as it is more likely to attract traditional private

23 NDICI-Global Europe proposal (2020), Annex V Priority areas of the EFSD+ operations covered by EAG

24 NDICI-Global Europe (2020), Chapter IV EFSD+, budgetary guarantees and financial assistance [...] , Art.31

25 In addition to the guarantee of commercial operations, the External Action Guarantee (EAG) covers macro-financial assistance (linked to IMF programmes and regulatory reforms) and sovereign loans through the European Investment Bank (EIB). For an analysis of EIB activities in the development field, see: Counterbalance (2016), Going abroad: A critique of the EIB's External Lending Mandate.

26 For a detailed discussion of EFSD+ and previous EU blending facilities, see K. Bayliss et al.(2020), The use of development funds for de-risking private investment: how effective is it in delivering results?; Study requested by the European Parliament DEVE committee

27 EU Court of Auditors (2020), OPINION No 7/2020 accompanying the Commission's report on the implementation of the EFSD (COM (2020) 224 final), Official Journal of the European Union, p.4; N.B. The ECA highlights, an external assessment carried out in 2020 could not rely on sufficient hard evidence or visits to specific projects to be considered an evaluation of EFSD support.

28 As initially laid out in the Communication of the European Commission (2018), Towards a more efficient financial architecture for investment outside the European Union.

29 Data recorded at OECD level indicates USD 207 billion USD of private finance mobilised between 2012-2018 across DFIs.

30 European Commission (2020), Report from the Commission to the European Parliament and the Council on the implementation of the European Fund for Sustainable Development. p.8.

31 ODI (2019) – "Blended finance in the poorest countries", based on internal &OECD data, identifies leverage ratios of 0.37 for LICs vs. 1.06 in LMICs.

32 Lower leveraging ratios are more likely to avoid market distortions and ensure financial additionality as they limit the risk of subsidizing investments that would have been made even without the blending arrangement.

33 EU Court of Auditors (2020), OPINION No 7/2020 accompanying the Commission's report on the implementation of the EFSD (COM (2020) 224 final), Official Journal of the European Union, p.6. European Commission (2020), Independent evaluation of the European Fund for Sustainable Development

Figure 3: Key voluntary principles on blended finance

OECD DAC Blended Finance Principles	Kampala Principles on Effective Private Sector Engagement in DC (GPEDC)
(1) Anchor BF use to a development rationale	(1) Inclusive country ownership
(2) Design BF to increase mobilisation of commercial finance	(2) Results and targeted impact
(3) Tailor BF to local contexts	(3) Inclusive partnership
(4) Focus on effective partnering for BF	(4) Transparency and accountability
(5) Monitor BF for transparency and results	(5) Leave No One behind

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stakeholders, who often have significant lobbying capacity to adjust regulations, than smaller impact investors.[34]

On a positive note, an opportunity with EFSD+ is that licensed financial institutions (EFIs & IFIs)[35] are openly invited to submit their proposals to the European Commission – which will assess them according to the EU policy objectives and programming priorities. The inclusion of EFSD+ operations in the preparation of **multi-annual indicative programmes**[36] will strengthen the participation of national authorities in investment related-decisions. Nevertheless, such a bottom-up approach does not correspond to the current practice of DFIs which are rather driven by ad-hoc investment decisions than by the investment gaps identified through a national strategy and involving various national stakeholders.[37]

In terms of monitoring and accountability, the EFSD+ anticipates some risks and openings too. A **publicly available checklist of eligibility criteria** for EAG-supported operations (Art. 35(9)) is an opportunity to establish clarity on the purpose and monitoring indicators of projects to avoid high amounts of scarce ODA, especially in LDCs, being poured into unsustainable or even harmful initiatives. The high ambitions around **ex-ante evaluations for EAG (Art.35 (2)) and the annual reporting on EFSD+ financing and investment operations** (Art. 41(7)) will largely depend on clear responsibilities, outcomes and standards that should be laid out for every specific project and within financing agreements. However, a clear risk associated with the checklist, the ex-ante evaluation and the annual reporting is that the too broad range of overly ambitious criteria which exists now becomes a shopping list that promotes projects without assessing their final impact across all dimensions of sustainable development. Furthermore, while it is positive that Global Europe includes a reference to the **grievance mechanisms**[38] of relevant counterparts which can be used by negatively impacted communities, it is however difficult to find and not linked to any consultation mechanisms that informs local communities about their rights. Give that the mechanism is an online tool, in many LDCs, with low and expensive access to internet, it is highly unlikely that affected populations could effectively access it to defend their rights.

In view of its weak accountability mechanisms, it is crucial the EFSD+ monitors the respect of the development effectiveness principles - the Blended Finance Principles and the Kampala Principles[39] in LDCs – which the EU has internationally committed to at the DAC and GPEDC levels. Figure 2 provides a snapshot of the two sets of principles. Among these principles, democratic ownership and do no harm are particularly relevant for LDCs. The Textbox 3 delves into them.

34 K. Bayliss et al. (2020), The use of development funds for de-risking private investment: how effective is it in delivering results?; Study requested by the European Parliament DEVE committee, p.33.

35 In addition, private investors who consider themselves eligible, are openly invited to submit their proposals under the External Investment Plan and will be assessed for eligibility for funding through one of the partner IFIs.

36 NDICI-Global Europe, Chapter I – Programming.

37 S. Kapor(2019), Billions to Trillions – A Reality Check, Stamp Out Poverty, p.8.

38 Article 39 NDICI-Global Europe proposal: If the community is not satisfied with the treatment of the grievance by the counterpart it can still turn to the European Commission. This, however, makes it even more difficult to access.

39 Other principles like the DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects insist on the risk of market distortion and unviable commercial operations at the operational level.

TEXTBOX 3 – RESPECT FOR "DEMOCRATIC OWNERSHIP" & "DO NO HARM" NEED TO BE AT THE CENTRE OF BUILDING BACK BETTER IN LDCS

Democratic ownership: Ownership and alignment require strong collaboration between and regular consultations of relevant local counterparts at all stages of planning, implementation and M&E. In the EFSD+ regulation, EU partner country governments and other stakeholders are only very loosely associated with decisions about the allocation and monitoring of funds. The strategic board foresees only an optional observer status for partner countries and Global Europe does not specify the composition of the operational boards of regional investment platforms. The programming exercise that sets up multi-annual indicative programmes and investment windows will depend on the structures already in place, but in the short-run it offers little prospect of strengthening democratic consultation and decision- making in partner countries.

Do no harm: The rapidly growing number of blended finance facilities increases the competition around them and risks further enhancing the race to the bottom around taxes as well as social and environmental safeguards. Examples around evictions, human rights and tax abuses in LDCs are plentiful, like Mozambique's Nacala Corridor (a region where EFSD **contributed to road infrastructure in 2019**) or **Haiti's Northern Industrial Parc**. It is important to note that the **U.S. Supreme Court** recently ruled that international organisations are not immune against pursuits if they act as a private player in the market.

Domestic companies are mostly ill-equipped to compete with European investors who are protected through bilateral investment agreements and benefit from preferential procurement practices. A recent **GPEDC review** of 919 projects that engage the private sector showed that partner countries and their MSME are largely side-lined. As many multinational companies act through local subsidiaries, subsidies to local companies need to be closely assessed beforehand, including to avoid harmful tax practices.

RECOMMENDATIONS

1 In the absence of meaningful evidence on the development impact of the EFSD and other blending operations in LDCs, the European Commission and EU Member States should:

- Adopt a "phased approach" to blending operations in LDCs, which means investing slowly and through pilot projects per LDC partner country in order to progressively unfold interventions that fit the local context.
- Consider developing a common casebook to gather lessons learned from EU Member States' blending in LDCs and the European Commission regional investments facilities.
- Channel committed LDC ODA resources (0.15/0.20% of GNI) through ODA grants, directly partner with national institutions/local authorities, CSOs, cooperatives, trade unions and women's organisations, and put development effectiveness principles before mobilisation targets.
- Prioritise in LDCs budget support and programme-based approaches that remove harmful conditionalities against debt distress at the expense of the most marginalised people.
- Support LDCs' government leadership, parliamentary oversight and increased civic space, including through sustained social dialogue with social partners, throughout all the phases of the project cycle (design, implementation, evaluation).
- Ensure that, in the few cases when blending is appropriate for LDC contexts[40] the 85% target established in GAPIII that all blending operations and guarantees are G1/G2 by 2025, is respected.
- Establish a meaningful eligibility checklist for EAG operations in LDCs and prioritise the decisions of national and local authorities and communities at all stages of project implementation.
- Support LDC governments to strengthen legal frameworks, fiscal standards and the social dialogue.
- Strengthen the watchdog and accountability role of local CSOs, cooperatives, trade unions and women's organisations in LDCs.

2 In view of the manifold reports regarding the inflated costs of PPPs and the human rights, social and environmental abuses caused by private operators in LDCs that lack robust regulatory and institutional settings, the European Commission and EU Member States should:

- Adopt, in line with the Global Europe commitment that essential public services should remain a government responsibility, a common approach to the exclusion of health, education and social protection sectors from private sector investments leveraged through blended finance and guarantees in LDCs. [41]
- Ensure added value for all target groups in other "investable" sectors and make a clear distinction between local LDC economic actors and other companies.

3 In light of the implementation of the European Fund for Sustainable Development Plus in the LDCs, the European Commission should:

- Ensure transparency of beneficiary companies and systematically blacklist those with records on human rights violations, tax evasion and environmental abuse.
- Prioritise partnerships with LDC partner countries domestic enterprises that pursue sustainable and inclusive business models.
- Establish a centralised grievance mechanism for EFSD+ and ensure communities in LDCs are systematically informed about their rights. Strong social, environmental and human rights safeguards should apply to EFSD+ and to institutions signing guarantee agreements in LDCs. Accessible and effective monitoring and complaints mechanisms should be used systematically to allow any negative impacts of EU-funded investments on LDCs local communities and final beneficiaries to be addressed.
- Develop a strong 'do-no-harm' list of investments to be explicitly excluded from EFSD+ support in LDCs – including to ensure that the EFSD+ does not support investments or activities that are counterproductive in climate and environmental terms. This list could be modelled on Annex V of the InvestEU regulation and completed. Furthermore, the do-no-harm criteria of the EU taxonomy of sustainable investments should be used to integrate the exclusion list, as the taxonomy covers a broader scope of sectors, including for environmental objectives.

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40 See Section I on "investable sectors" where it may be of added value to support domestic enterprises engaged in sustainable and inclusive business models.

41 In line with the reality of the EFSD portfolio which has not managed to channel any finance to social sectors, like health and education, in Sub-Saharan Africa.

4 **Public resources to increase equalities** need to be at the centre of any coordinated response capable of addressing the disproportionate socio-economic impact of the COVID-19 pandemic on LDCs. Therefore, Team Europe should:

- Redirect its development assistance towards modalities that support domestic resource mobilisation as well as robust binding regulations that drive sustainable and inclusive business engagement in LDCs.

- Prioritise their contribution to binding standards/ regulations on business and human rights, tax avoidance and illicit financial flows over thinly spread engagements in voluntary fora. This would contribute to deliver the EU's commitment to policy coherence for development.

- Engage, in the appropriate international fora, with tax, debt & financial sector related policies that enhance fiscal space of LDCs and other fragile countries to achieve the SDGs.

ANNEX 1 - ACRONYMS

CSO	Civil Society Organisation
EAG	External Action Guarantee
EFI	European Financial Institutions
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EIP	External Investment Plan
EU	European Union
GPEDC	Global Partnership for Effective Development Cooperation
IATF	Interagency Taskforce on Financing for Development
IFIs	International Financial Institutions
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle-Income Country
MFF	Multiannual Financial Framework
MS	Member States
MSMEs	Micro-, Small-, and Medium-sized enterprises
NDICI	Neighborhood, Development and International Cooperation Instrument
PPP	Public Private Partnership
SIBM	Sustainable and Inclusive Business Models
SSA	Sub-Saharan Africa
UN SDSN	UN Sustainable Development Solutions Network

ANNEX 2 - KEY AID MODALITIES IN LDCS VS. BLENDING INSTRUMENTS

ANNEX 2 - KEY AID MODALITIES IN LDCS VS. BLENDING INSTRUMENTS

Table 1 provides a concise overview of the advantages and downsides of different modalities.

MODALITY	ADVANTAGE	DOWNSIDE
Budget support	• Enters national budget cycles, and strengthens country systems and harmonisation; • Strengthens national ownership & investments in public services; • Clear reporting lines - governments in charge of service delivery; • Can strengthen the social contract if combined with support to local stakeholders able to hold institutions accountable; • Can be general or sectoral (as per country context)	• Easily attached to conditionalities that promote budget austerity and social spending cuts (e.g. budget support linked to IMF programmes); • Limited accountability, e.g. often based on government-donor agreements without adequate parliament/public debate and reporting on the use of funds
Project-based grants	• Avoids additional debt-distress; • Projects can strengthen social accountability when delivered through national institutions and citizens (e.g. CSOs, trade unions, women's organisations); • Programme-based approaches limit fragmentation; • Supports establishing clear targets and bypassing weak institutional /control structures.	• Enhances duplications, fragmentation and inequalities (e.g. not reaching remote locations); • Higher shares of administrative costs; • A variety of options for project implementation • Accountability structures are unclear/insufficient involvement of the local community in deciding on content of projects.
Blending and guarantees	• Facilitates pulling more investors into sectors that can contribute to SDGs; • Limits investment risk & allows investment in bigger projects;	• Low evidence on development impact and inflated promises on the leveraging potential; • Risks of liabilities for partner country governments; • Limited number of viable/investable projects if additionality principle respected; • Unclear accountability structures and limited transparency; • Risks to deviate ODA from crucial social investments; • Risks of distorting markets, harming local contexts & environment.
Investments into/ procurement from LDC domestic companies, including SIBMs	• Strengthens economies, sustainable jobs, local production and supply chains; • Strengthens domestic tax base, social & environmental mission of the local enterprise • Transforms innovative ideas into sustainable solutions for those most in need.	• Smaller investments and target groups; • Need for long-term vision/commitment over time.

OUR MEMBERS

NATIONAL PLATFORMS

- Global Responsibility – Austrian Platform for Development and Humanitarian Aid
- Belgisch Platform / Plate-forme Belge CONCORD – CNCD-11.11.11, 11.11.11, ACODEV, ngo-federatie
- BPID – Bulgarian Platform for International Development
- CROSOL – Platforma za međunarodnu građansku solidarnost Hrvatske – Croatian Platform for International Citizen Solidarity
- CYINDEP – Cyprus Island wide NGO Development Platform
- FoRS
- GLOBAL FOCUS – Danish CSOs for Development Cooperation
- AKÜ
- fingo
- COORDINATION SUD
- VENRO – Association of German Development and Humanitarian Aid NGOs
- Hellenic Platform for Development
- HAND
- Dóchas – The Irish Association of Non-Governmental Development Organisations
- CONCORD ITALIA – Network delle ONG in Europa per lo sviluppo e l'emergenza
- LAPAS – www.lapas.lv
- LITDEA – Lithuanian National Non-Governmental Development Cooperation Organisations' Platform
- Cercle de coopération des ONGD du Luxembourg
- SKOP – Solidarjetà u Koperazzjoni
- PARTOS
- ZAGRANICA
- ONGD Plataforma Portuguesa
- FOND
- Ambrela – Platform for Development Organisations
- SLOGA – Slovenian Global Action
- COORDINADORA ESPAÑA
- CONCORD SWEDEN
- bond

NETWORKS

- actalliance eu – Formerly APRODEV
- actionaid
- ADRA
- care
- caritas europa
- cbm – together we can do more
- ChildFund Alliance
- CIDSE – together for global justice
- eu-cord
- GNDR – Global Network of Civil Society Organisations for Disaster Reduction
- Habitat for Humanity
- humanity & inclusion
- IPPF European Network – International Planned Parenthood Federation
- LIGHT FOR THE WORLD
- OXFAM International
- PLAN INTERNATIONAL
- Save the Children
- Sightsavers
- solidar
- SOS CHILDREN'S VILLAGES INTERNATIONAL
- Terre des Hommes International Federation
- wecf
- Wetlands International
- World Vision
- WWF

ASSOCIATE MEMBERS

- alda – European Association for Local Democracy
- eaea – European Association for the Education of Adults
- European Partnership for Democracy
- NRC – Norwegian Refugee Council