WORKSHOP

Requested by the DEVE committee

European Parliament

The future of the European Financial Architecture for Development

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WORKSHOP

The future of the European Financial Architecture for Development

ABSTRACT

The workshop, organised at the request of the Committee on Development (DEVE) on 7 February 2022, provided a brainstorming platform for an exchange of views between Members of the committee, invited experts and various stakeholders, on the future of European Financial Architecture for Development (EFAD). It examined the state of play and the decisions made by the Council to pursue the 'status quo +' option, as well as other alternative options and scenarios, such as the establishment of a European Climate and Sustainable Development Bank. It provided recommendations on the best way forward, including on the roles of the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and EU Member States' development finance institutions, also in the context of the 'Team Europe' approach and the implementation of the NDICI-Global Europe regulation. The workshop was accompanied by written briefings by external experts, feeding into the drafting process of the committee's own-initiative report on the subject-matter. Two panels corresponding to the thematic focus of the experts' briefings were held as follows: Panel 1: 'Evaluation of the state of play of the European Financial Architecture for Development' and Panel 2: 'The roles of the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and EU Member States' development finance institutions'. This report compiles the briefings, and a summary of the debate.

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Briefing - The European Financial Architecture for Development: evolution or revolution?

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

European Parliament

BRIEFING

The European Financial Architecture for Development: evolution or revolution?

ABSTRACT

This briefing looks at progress on the European Financial Architecture for Development (EFAD). It highlights challenges associated with the current European development finance ecosystem and the European Union's (EU) positioning at the centre of this system through its development policy and financial instruments. In summarising attempts to streamline EFAD, whilst analysing the merits and pitfalls of the action plan - the so-called 'Status Quo Plus' - agreed by the European Council in 2021, three possible scenarios are discussed. These are: the establishment of a dedicated EU development bank; a formalised division of labour based on competitive advantage; as well as a more structured and harmonised system to be controlled by the European Commission. The briefing concludes that most plausible, effective and efficient scenario is for the European Commission to act as a more unifying central force, setting and enforcing policy guidelines, as well as ensuring a clear and coherent policy steer. It provides recommendations for enhanced European Parliament control and scrutiny of EU development policy and finance as well as further political guidance on the future and implementation of EFAD.

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List of abbreviations

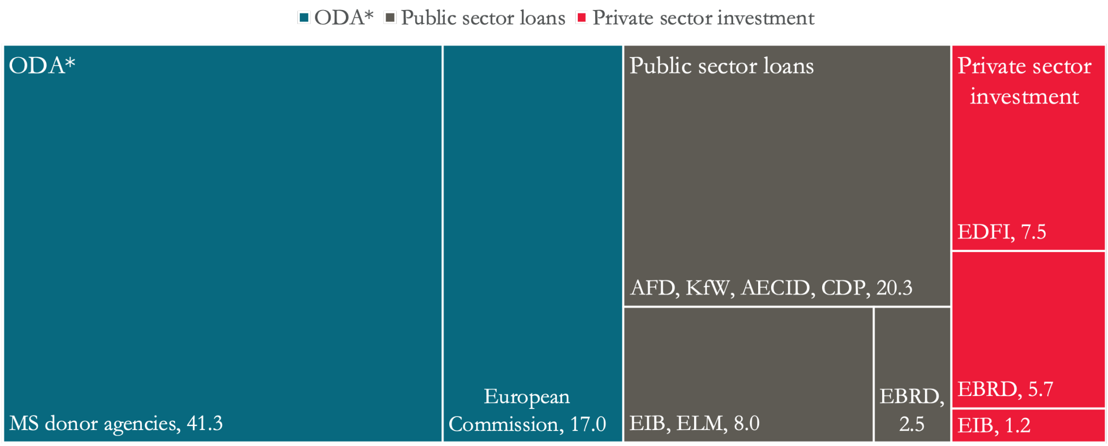
AFD	Agence Française de Développement
DFI	Development Finance Institution
EAG	External Action Guarantee
EBRD	European Bank for Reconstruction and Development
EDFI	Association of bilateral European Development Finance Institutions
EFAD	European Financial Architecture for Development
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EU	European Union
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Country
NDICI – Global Europe	Neighbourhood, Development & International Cooperation Instrument – Global Europe
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal
TEI	Team Europe Initiative
UN	United Nations
WBIF	Western Balkans Investment Framework

1 The current European development finance landscape

Provision of development finance currently relies on a wide network of actors at European and national levels. As the single largest source, the European Union (EU) takes a central position and plays an important role in facilitating progress on global development. It also shapes the global development agenda through its European Consensus on Development (framed by the United Nations (UN) 2030 Agenda and the Addis Ababa Action Agenda).

The EU's Neighbourhood, Development and International Cooperation Instrument–Global Europe (NDICI-Global Europe), adopted under the 2021-2027 Multiannual Financial Framework together with the European Fund for Sustainable Development Plus (EFSD+) and the External Action Guarantee (EAG), provides a strategic framework and set of mechanisms for blended finance and guarantees to scale investment for greater impact in partner countries. At European level, the main actors are the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the financial instruments of the European Commission managed through pillar-assessed development finance institutions (DFIs). At national level, the two largest DFIs, France's Agence Française de Développement (AFD) and Germany's Kreditanstalt für Wiederaufbau (KfW), form part of the Enhanced Partnership Group along with Spain's Agencia Española de Cooperación Internacional para el Desarrollo and Italy's Cassa Depositi e Prestiti. 15 national DFIs focus on private sector investment and are represented in the Association of bilateral European Development Financial Institutions (EDFI)[1]. As illustrated in Figure 1, these institutions provide various types of financing, from official development assistance (ODA) to public sector loans and private sector investment.

Figure 1: European development finance landscape, by instrument and institution, 2020, EUR billion



*Bilateral development cooperation assistance in the form of grants, budget support and in-kind donations. Excludes ODA-generating investments from AFD, KfW, AECID, CDP.
Source: Own elaboration based on annual reports from DFIs and donors.

Europe's multilateral and bilateral DFIs are increasingly important actors in the international development finance landscape. Adoption of the UN's Sustainable Development Goals (SDGs) and the Paris climate change commitments in 2015, with the associated 'billions to trillions' narrative, emphasised that official aid resources were finite. Finance would need to be mobilised from all sources – particularly the private

[1] The member institutions include the Belgian Investment Company For Developing Countries (Bio), British International Investment (formerly CDC), the Spanish Compañía Española de Financiación del Desarrollo (COFIDES), the German Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Finnish Fund for Industrial Cooperation (Finnfund), the Netherlands Development Finance Company (FMO), the Danish Investment Fund for Developing Countries (IFU), the Norwegian Investment Fund For Developing Countries (Nordfund), the Development Bank of Austria (OeEB), the French Société De Promotion Et De Participation Pour La Coopération Economique (Proparco), the Swiss Investment Fund For Emerging Markets (SIFEM), the Italian Società Italiana Per Le Imprese All'estero & CDP Development Finance (SIMEST/CDP), the Portuguese Sociedade Para O Financiamento Do Desenvolvimento (Sofid) and the Swedish Swedfund International.

sector – to match the world's new development and climate ambitions. The DFIs play a pivotal role in addressing enormous development challenges, particularly regarding climate change. Their deep sectoral expertise, geographic coverage (with a strong focus on Africa) and technical staff translate into significant contributions to development impact. However, rapid expansion of European DFIs with overlapping mandates has resulted in calls for reform or rationalisation of the existing architecture to ensure that it is fully commensurate with current development challenges in Sub-Saharan Africa, the EU's Neighbourhood and elsewhere in the world, thereby delivering impact efficiently and effectively.

1.1 Challenges with the system

While multiple and diverse European DFIs have brought increased investment in developing countries' markets, the lack of coordinated action and absence of a unifying framework have led to fragmentation, duplication, incoherence, competition for visibility and undercutting of commercial investors in ways that can produce economic distortion. This incoherence has placed a heavy burden on Europe's partner countries and the private sector in light of different procurement requirements, financing conditions, entry points and risk approaches (Chadwick, 2021).

Continued competition amongst European DFIs prevails, particularly in low-income countries (LICs) and fragile states where the pipeline of projects that meet stringent investment criteria is more limited and fewer private investors are willing to co-invest. While DFIs do share information on the project pipeline and healthy competition can lead to better project quality, the lack of transparency and trust surrounding investment tools and approaches increases competition amongst DFIs, leads to market distortion and ultimately reduces the bankability of investment projects. Moreover, while there are efforts to discuss best practices on blended finance amongst some DFIs, and the Organisation for Economic Co-operation and Development (OECD) has developed principles on blended finance, these are not necessarily operationalised or enforced at European level (OECD, 2018).

This lack of harmonisation is brought to the fore particularly in areas such as shared due diligence and impact assessment and has constrained collaboration. Despite progress in building a common measurement of development impact[2], there are still many different approaches across DFIs. This can make public scrutiny and accountability more difficult. Added to this, DFIs face pressure to place more emphasis on a broader suite of development indices – beyond job creation – as a large part of their capital comes from national development aid budgets.

This absence of a common ruleset at EU level continues to hinder the effective use of financial instruments managed by the European Commission, undermining their development impact.

1.2 The EU's role

The EU takes a central position within the European development finance system and has attempted to bring about improvement through:

1. The External Investment Plan, which aims at fostering cooperation and pooling investment amongst all actors, including its financial arm, the EFSD, connecting blended finance and guarantees.
2. The newly created single and flexible NDICI-Global Europe and its open financial architecture with blended finance and guarantee tools through the EFSD+ and the single EAG.

[2] Members of the EDFI network have a multi-year project on harmonisation in impact measurement designed to ensure that members all define and measure social and economic impact in the same way. EDFI members, the EIB and EBRD are also signatories to the International Finance Cooperation's new 'Operating Principles for Impact Management' launched in 2019 and designed to introduce more standardisation and professionalism into impact measurement. In addition, in 2020, four bilateral European DFIs plus FinDev Canada and the African Development Bank launched the Joint Impact Model (JIM) as a new tool to model and measure the indirect impacts of their investments.

3. Its global response to COVID-19 and the 'Team Europe' approach – potentially a powerful coordination framework at EU level and with European partners.

1.2.1 The EFSD

The EFSD constitutes the financial arm of the EU's External Investment Plan, worth EUR 5.4 billion. This fund is divided into blending facilities (EUR 3.8 billion) and guarantees (EUR 1.55 billion). Between 2017 and 2020, blending operations valued at EUR 2.1 billion have been allocated to Sub-Saharan Africa and EUR 1.7 billion to the EU Neighbourhood (European Commission, 2021a).

The EFSD guarantee scheme comprises five investment windows for small business and agriculture (EUR 508 million), sustainable energy and connectivity (EUR 278 million), sustainable cities (EUR 100 million), digitalisation (EUR 478 million) and local currency financing (EUR 165 million). These allocations were considerably readjusted following the pandemic's outbreak, thereby increasing to more vulnerable groups. For blending operations, most of the investments were in infrastructure, primarily energy (28 %) and transport (25 %), followed by private sector development (23 %). Only a small fraction of EFSD blending activities focused on human capital (less than 4 %) (European Commission, 2021a).

As the purpose of such guarantees is theoretically both to cover DFI losses in cases of default and mobilise private sector capital, they have a vital role to play in pushing these institutions to mobilise investment for higher-risk markets. However, given the loose and broad-based framework, DFIs have effectively been free to propose investment programmes that have suited their own objectives, specialisations and risk appetite. Hence, the real question is whether the EFSD scheme has resulted in additional investments or just subsidised investments that would have taken place anyway.

The absence of strong policy steering from the European Commission has been cited as a missed opportunity with the EFSD. It was felt that the European Commission could have provided more support and direction in persuading DFIs to: (i) move out of their 'comfort zones'; (ii) undertake investments beyond 'business as usual'; and (iii) take on more risk (Gavas and Timmis, 2019).

The Fund has had some success in incentivising coordination and joint initiatives between DFIs – both bilateral and multilateral, within and outside Europe. The European Commission has also actively encouraged DFIs to collaborate with each other in their applications to the EFSD, given that combining their different skills and experiences in complementary formations reportedly leads to higher quality proposals. 44 % of EFSD guarantees and 35 % of blending operations involved at least two DFIs (European Commission, 2021a). Furthermore, as part of the EFSD, AgriFI and ElectriFI – two innovative blending facilities supporting early-stage investments in agriculture and energy access – were established and managed by the EDFI Management Company, a subsidiary which develops and manages joint financing in partnership with the EU.

More broadly, the EFSD has been welcomed by the DFI community as a tool for strengthening cooperation amongst DFIs and with the EU. It has also enabled smaller European DFIs to penetrate new markets. However, many European bilateral DFIs have not engaged with this, in part because it was seen as a vehicle for financing large projects. The EIB has been the EFSD's preferred partner, implementing 26 % of the budget for blending operations, followed by the AFD (18.4 %), the African Development Bank (16.8 %), KfW (16.3 %) and the EBRD (14.7 %) (European Commission, 2021a). These five institutions have provided 92 % of all blending projects since 2017, demonstrating that, while the EFSD is in principle open to all European and international DFIs, in practice the larger players have a stronger access capacity.

Furthermore, European Commission financing under the EFSD is often difficult to access due to the heavy administrative procedures. Some DFIs have reported that European Commission application and approval processes are slow and complex, with limited bandwidth to engage. The European Commission's development finance expertise and capacity to process applications for its guarantee and blending facilities were also cited as key challenges to more effective use of the mechanism (Gavas and Timmis, 2019). Put simply, the European Commission, particularly when dealing with complex guarantee instruments, requires a significant increase in its internal banking as well as legal skills and resources to judge whether or not a particular proposed DFI investment could be potentially transformative. Indeed, an independent assessment which accompanied the European Commission's implementation report of the EFSD (European Commission, 2020a) concluded that the fund's operational blueprint needed more detailed review covering the business processes, roles and responsibilities of headquarters and EU Delegations, their capacity, staff skills and training, as well as their knowledge management.

1.2.2 The NDICI-Global Europe

The introduction of the NDICI-Global Europe, with an overall budget of EUR 79.5 billion for 2021-27 (at current prices) and incorporating the European Development Fund (excluding its military expenditure) constitutes a historic change in EU development policy, leading to the rationalisation and consolidation of EU development spending (European Union, 2021). Geographic programmes are at the centre of NDICI-Global Europe, with a EUR 60 billion allocation, mainly concentrated in two priority regions for EU development: at least EUR 29.18 billion for Sub-Saharan Africa; and EUR 19.32 billion for the EU's Neighbourhood. This instrument sets a spending target of 30 % for climate objectives. It reiterates the age-old commitment to provide 0.2 % percent of Gross National Income for aid to least developed countries (LDCs) by 2030. Furthermore, it sets a benchmark of 93 % for EU development assistance to qualify as ODA, as defined by the OECD Development Assistance Committee, thereby demonstrating the EU's compliance with adherence to international norms and standards.

Spending targets have also been set for other thematic priorities. 10 % of available finance has been allocated to 'actions supporting management and governance of migration and forced displacement' and 20 % to social inclusion and human development, including basic social services such as health, education, water, nutrition, water, sanitation and hygiene, as well as social protection (European Union, 2021).

NDICI-Global Europe also simplifies the external investment framework, bringing its multiple tools – blended finance and guarantees – under one roof, namely the EFSD+. This considerably expands the geographic scope and financial envelope of the EFSD and will be able to guarantee operations up to EUR 53.4 billion through the EAG (Gavas and Pleeck, 2021), despite admonishment from the European Court of Auditors for the European Commission's lack of information on additionality, aspects of effectiveness, performance in crowding-in private sector finance, as well as issues related to the functioning and management of the EFSD (European Court of Auditors, 2020).

The 'policy first' principle is one of the most important innovations of the NDICI-Global Europe signalling a shift towards policy objectives rather than instruments driving cooperation. As a result, the use of EU budgetary guarantees will be subject to the programming process. The EFSD+ guarantee investment windows focus on six key areas, reflecting the fund's strategic priorities: micro, small and medium enterprises; connectivity (energy, transport and digital); sustainable agriculture; biodiversity, forests and water; sustainable cities; sustainable finance and impact investing; as well as a new addition, human development. At the time of writing, allocations had yet to be set.

NDICI-Global Europe gives new impetus to greater collaboration between European development actors. The rules governing this instrument specify that 'joint programming' is the preferred approach for country plans (European Union, 2021). This backs the European Commission in its application of a Team Europe approach – combining its own expertise and funding with that of Member States and European DFIs – as the norm rather than the exception.

Although the NDICI-Global Europe Regulation aims at enhancing the ability of (mainly) European DFIs and banks to invest at scale, it continues to position the EIB as the natural EFSD+ partner with extension of the EIB external lending mandate through three dedicated windows worth EUR 26.7 billion in total. Thus, the

EIB has been granted both an exclusive mandate and a mandate as part of the EFSD+ open architecture. This has led to cold reactions from DFIs. They deem the framework not only unnecessarily complicated but also contest the fact that the EIB can engage in commercial sub-sovereign operations both on its own terms – unbeknownst to others – and as a competitor within the EFSD+ open architecture (Erforth, 2020). Furthermore, as part of the current programming process and in adherence to the 'policy first' principle, EIB presence on the ground is being partially reinforced to build closer ties with the European Commission in policy dialogue and project identification.

The NDICI-Global Europe Regulation also stipulates that the European Commission will be advised by a Strategic Board within the EFSD+ management, comprising the European Commission itself, the High Representative, the Member States and the EIB, with the European Parliament as an observer. While the text also creates a possibility for other Multilateral Development Banks and DFIs to obtain observer status, it excludes institutions such as the EBRD and EDFI members from shaping the instrument's strategic orientation, including design of the investment windows and targets. The EIB insists that they should be invited only on a case-by-case basis, thereby reinforcing its own position as 'preferred partner'.

The approved Regulation stresses that the European Parliament will have two geopolitical dialogue meetings with the European Commission on an annual basis, to allow for a structured high-level dialogue about the instrument's implementation, context and results.

1.2.3 The Team Europe Approach

The 2020 Joint Communication on the Global EU response to COVID-19 established the Team Europe approach as 'a single framework for all the European external response in support of partners to address the COVID-19 crisis' (European Commission, 2020b). Team Europe comprises: the EU and its Member States; implementing agencies; the EIB; and other European financial institutions, including the EBRD. This initial configuration still represents an informal approach with no institutional grounding and hence it receives no mention in the NDICI-Global Europe Regulation.

In the programming phase of NDICI-Global Europe, this new framework has become the norm beyond responses to COVID-19 through Team Europe Initiatives (TEIs) coordinating the actions of all stakeholders in specific sectors. The EU is currently preparing around 150 TEIs at country or regional level (European Union/Capacity4dev, 2022). These TEIs' objectives are twofold. On the one hand, they aim to foster cooperation between the different donors and financial institutions. On the other hand, they seek to increase the visibility of the EU's external action. Accordingly, a 'country TEI' should consist of at least three Team Europe members and a 'regional TEI' at least four members (European Commission, 2021d). TEIs are also open to non-EU members, with Switzerland and Norway having already expressed interest in joining various initiatives. Examples of current TEIs being developed include: a EUR 1 billion effort on increasing vaccine production; access to medicine in Africa; and a TEI to invest in young businesses in Africa. However, initial findings suggest that TEIs are largely driven by large stakeholders such as France, Germany, EIB and the EBRD, leaving little space for smaller EU members to influence the agenda (Gavas and Pleeck, 2021d).

Following proof of concept at the start of the COVID-19 crisis, the European Commission has successfully managed to build on this momentum to find ways of enhancing cooperation and collaboration. Team Europe represents a promising process in enabling further cooperation between the EU, its Member States, the EIB and the EBRD, contributing to increasing the EU's collective effectiveness and visibility. However, we are none the wiser as to how this will work in practice, thereby creating a scrutiny challenge for the European Parliament. At this point, it is difficult to obtain a clear understanding of: decision-making rules; intervention costs; which financial instruments will be deployed; what division of labour will apply; who is driving the agenda; and the extent to which investments are jointly owned by partner countries.

The Global Gateway – the EU's EUR 300 billion worldwide connectivity strategy (including the recently announced EUR 150 billion investment package for Africa) – links both the NDICI Global Europe (as one of its main financing arms) and Team Europe (as its main delivery vehicle). However, it proposes the creation of a Global Gateway Board which will provide 'strategic guidance' to the plan and participate in designing the projects to be delivered under a Team Europe approach (European Commission, 2021c). The creation of this parallel governance body to the EFSD+ Strategic Board not only muddies the political decision-making waters and draws into question the coherence with the multiple TEIs already in play but crucially also poses a real challenge to parliamentary scrutiny and accountability. With substantial expectations on leveraging the private sector, the Global Gateway constitutes a real challenge for the European Financial Architecture for Development (EFAD) in establishing a coherent structure for access to European development finance and mobilising external resources.

2 The European Financial Architecture for Development process

A quest to streamline the EFAD was revived by France and Germany in June 2018 with the Meseberg Declaration (Élysée, 2018). Previously, in 2010, a Wise Persons report (the so-called 'Camdessus report') had suggested a merger of the EIB and the EBRD, as well as the creation of a 'European Bank for Cooperation and Development' (Camdessus et al., 2011). In April 2019, the European Council established another 'group of wise persons' to revisit the question of EFAD's streamlining. Motivated by a significant SDG financing gap, in combination with the increasing imperative of tackling transnational development challenges, the Wise Persons Group report, published in October 2019, provided a system-wide perspective on the challenges and opportunities for improving and rationalising the system, looking in particular at the respective roles of the EIB and the EBRD. The report maintained that lack of urgent action would present substantial risks for the EU's main development policy goals and the overall global standing of the EU and argued for a singular, well-capitalised European Climate and Sustainable Development Bank that would 'become the natural development finance centre, alongside the European Commission in its role of policy centre' (Wieser et al., 2019). According to the report, this would enable the creation of a more coherent financial architecture to deliver EU development priorities, put an end to duplication and increase the EU's visibility abroad. The bank would have a full range of financial instruments to support development strategies and the climate agenda, with ability to manage risks in challenging environments, support policy reforms and crowd-in private sector finance (i.e., increased private investment due to increased public investment) in collaboration with European DFIs.

2.1 The options put forward

The Wise Persons Group report considered three options for such consolidation:

1. **The EBRD could become the European Climate and Sustainable Development Bank,** subsuming the EIB's external financing activities. This was the preferred option of the group's Chair, Thomas Wieser, as the EBRD already boasts both the development and banking expertise, together with a strong track record in policy-based investment and crowding in private sector support (Gavas and Bilal, 2021).

2. **The European Climate and Sustainable Development Bank could constitute a separate institution alongside the EBRD**, subsuming the EIB's external financing activities. As a newly created EU body not yet influenced by any institutional path dependencies, the bank could objectively take greater account of partners' concerns and thus boost the positive image of EU development finance. However, it should be noted that this was clearly the most cost- and time-intensive option; hence, it was the least favoured.

3. **A new EIB development subsidiary could be made responsible for channelling the EU's external development finance to become the European Climate and Sustainable Development Bank**. This

option was initially proposed in the Camdessus Report. However, it would require the EIB to become a development bank and as such more willing to take on risk, particularly in low-income countries and fragile states, and increase its country presence. From the Wise Persons Group' perspective, therefore, this would require a major shift in culture and a clear separation from the EIB's core activities within the institution itself.

From these options, 1 and 3 were retained in the Council Conclusions of December 2019 for further analysis, through an independent feasibility study (European Council, 2019). An additional option was also put forward for the feasibility study to consider – the option of possible further enhancements in the current institutional set up (so-called 'Status Quo Plus'). Nevertheless, the report generated a political tug-of-war between the EIB and the EBRD as to which was better placed to become the new European Climate and Sustainable Development Bank.

The feasibility study (not made public in full, but a summary is accessible), although careful not to draw any definitive conclusions, was implicit in its finding that the best use of taxpayers' money combined with the highest possible development impact would be the creation of a system of collaboration and cooperation between the existing partners, leveraging on what already exists (Council of the European Union, 2021b).

The study maintained that the EU's simple majority on the EBRD board is not sufficient to guarantee full control over all decision-making. It also asserted that the balance of public and private sector activities would need to change (75 % of the EBRD's activities are private sector focused). Its geographic presence and expertise would also need to expand to Sub-Saharan Africa, particularly in fragile states and LDCs; additionally, in new geographies, the EBRD would be more dependent on donor resources. The EIB is predominantly contingent on EU guarantees. It is this requirement for the bank to secure guarantees from the EU, Member States, or third parties for its higher risk operations outside the EU which has made it particularly risk-averse in its lending. The study found that the EIB has: (i) limited experience in LDCs and fragile states; (ii) little presence on the ground; and (iii) lacks the capacity to carry out advisory and policy dialogue, especially at country level. The study highlights that it would require substantial changes in governance, risk-appetite, local presence, policies and procedures, along with an evolution of its current business model from an investment bank to a development bank.

This study went on to consider the option of Status Quo Plus. It suggested that institutions are already working well together, but that success would be determined by whether or not they could collaborate even more systematically together. It put forward four main areas of focus:

1. Clearer direction and control from the EU;
2. Stronger coordination and incentives for working together;
3. A more open financial architecture;
4. Bolstering brand recognition, policy dialogue and development impacts.

In the Council Conclusions of 4 June 2021, Member States endorsed the Status Quo Plus option, settling on maintaining the current situation but improving it with more effective cooperation between the EIB and the EBRD, together with the various European DFIs in a 'Team Europe' approach, combining resources in an effort to produce better results on the ground (European Council, 2021). They also emphasised the need for greater political guidance by the Council and stronger policy control and direction by the European Commission, including better coordination from the European voice in multilateral development banks and fora.

The Council did though stress that reforms of the EFAD should be conducted at no additional costs to Member States, despite inviting the EIB to improve its business model and increase its presence on the ground. Yet, to ask the EIB to take on more risk, create a better local network and lend more without incurring any costs is unrealistic.

2.2 The merits and pitfalls of 'Status Quo Plus'

The feasibility study asserted that a 'new single institution would not necessarily be more effective than the current system when it comes to key EU development policy priorities'. Moreover, the existing architecture is built on a multitude of institutions that are already working well together, with a suite of strengths and instruments together with sectoral and country experience. The added value of the Status Quo Plus scenario comes from the fact that the EU and Member States have complementary strengths and so should be able to intervene on a wide array of projects, with different degrees of risk and mutual levels of expertise. The rationale is that this interaction, as well as the competition between the EIB, the EBRD and national DFIs, should theoretically allow their comparative advantages to be harnessed. For instance, an open financial architecture that promotes competition and encourages innovation should, in turn, generate synergy between the various actors' areas of expertise, thus boosting the EU's global influence and lead to more efficient spending of taxpayers' money.

This scenario, albeit attractive for its cost-effective nature and logistical ease, requires unity of command. Moreover, the study shows that success would be predicated on agreement about which institution should take the lead to steer coordination and the various processes. As previously noted, the European Commission, with its development finance instruments and risk-sharing tools, sits at the centre of Europe's financial architecture and is thus the natural choice to set, steer and enforce agreed operating policies. Yet, as argued in the Wise Persons Group report, 'the number of players within the Commission results in top-heavy bureaucratic coordination leading to weak overall institutional flexibility, hindering visibility, coherence and efficiency as well as causing a potential loss of focus on the main policy imperatives' (Wieser et al, 2019).

The European Commission sees the Team Europe approach as an embodiment of the Status Quo Plus scenario. It has allowed the European Commission to identify key issues that need improvement, namely: stronger policy direction and focus; stronger mechanisms of communication and visibility; and overall stronger coordination. According to the European Commission, this forms the basis of the action plan that it is developing (Gavas and Bilal, 2021). Ultimately, it is the implementation of NDICI-Global Europe, including use of the Team Europe vehicle, which will be the litmus test as to whether or not increased cooperation, coordination and a better division of labour can be set in motion by the European Commission to enhance visibility and development impact.

In promoting the Status Quo Plus, some commentators maintain that the EU is shying away from any transformational change needed to create a truly impactful system (Chauvin, 2021; Gavas, 2021). Furthermore, having been outflanked by China in Africa, Europe would benefit from a single institution with real development banking expertise, strong coordination and effective risk management. They argue that if Europe wishes to play a prominent role in future financial architecture for development, it needs an institution that can play in the same league as the World Bank. Status Quo Plus will not solve the problems outlined in Section 1 of this paper, but rather allow 'business as usual' to continue, further fuelling competition between European DFIs and particularly the EIB and EBRD, undermining both impact and EU visibility in partner countries. This is borne out by the EIB and EBRD continuing to vie for domination in certain geographies and sectors, despite conclusions from the EFAD process. The EIB announced in a press release on 15 September 2021 that it would reorganise its activities outside the EU by setting up a branch for its external lending and increase its presence on the ground through regional hubs, with a first hub set up in Nairobi in November 2021. In January 2022, the EIB launched its new development branch, EIB Global. It is also seeking to expand its private sector focus (European Investment Bank, 2022). Meanwhile, the EBRD, already one of the largest players in the Western Balkans, Eastern Neighbourhood and Central Asia, is planning – subject to shareholders' approval – an incremental expansion into Sub-Saharan Africa and has committed to channelling more than 75 % of its finance to the private sector (Bennett, 2021).

2.3 Alternative scenarios

2.3.1 A European Climate and Sustainable Development Bank

The NDICI-Global Europe Regulation contains a dedicated article – Article 40 – that permits a contribution from the EU budget to a new European development bank (European Union, 2021). A dedicated EU development bank with a dual mandate, serving both the SDGs and European business interests would strengthen the EU position globally and contribute towards restoring a global level playing field. Bringing together the EIB's external activities under a common shareholding umbrella together with the European Commission's and the EBRD's external activities in a mixed-ownership entity with multiple shareholders could significantly improve system coordination. The appeal of an institution that goes by the name of the European Climate and Sustainable Development Bank lies in the promise that such an institution would improve coordination between the existing DFIs and make European development finance more visible throughout the world. With a broad portfolio and a large capital base, a central EU development bank could manage large-scale infrastructure projects, acting as the single financial vehicle for the EU's Global Gateway and offering an alternative to the Chinese model. As a newly created EU body that has not yet been swayed by any institutional path dependencies, the bank could take greater account of partners' concerns and thus boost the positive image of EU development finance. European DFIs and local promotional banks – through co-financing measures – would be able to contribute with their sector, regional and country expertise allowing for smaller and riskier projects to be financed under one European umbrella.

2.3.2 A formalised division of labour

Increasingly, EIB and EBRD operations overlap in terms of geographic and sector focus as well as financial instruments deployed. Signed in 2011, a Memorandum of Understanding (European Commission et al., 2011) between the two banks set out a functional division of labour based on:

- Areas where there is no common activity, thus no scope for cooperation;
- Areas of differentiated emphasis, where both Banks are active but with a differing emphasis based on respective core competencies;
- Areas of strategic cooperation, priority areas for transition and EU policy where cooperation is to be pursued at the strategic level and/or project level, as appropriate.

Nevertheless, there continue to be two key differences in approach between the banks:

1. Pricing philosophy: the EBRD uses market pricing, while the EIB takes a cost approach and adds a risk premium.
2. Influencing policy: the EIB is a policy-taker while the EBRD uses finance as leverage to influence policy reform. The EBRD has argued that the EIB's provision of non-conditional finance has undermined its leverage potential.

While the EIB and EBRD signed a Framework Project Cooperation Agreement in 2021 for enhanced cooperation, including co-financing in common geographic areas, the agreement falls short of a formalised division of labour between the two banks. Delineating and formalising such a division between the EIB and EBRD whereby each bank would automatically focus on its core competencies, leveraging its own skills sets and competitive advantages within its markets, would go some way in solving the present problem of duplication and undercutting.

As the EU's key multilateral institution for private sector focused development – almost 75 % of the EBRD's finance involves private sector operations compared with only 40 % for the EIB – the EBRD could target even more narrowly its activities in Europe by focusing on countries less advanced in transition. In addition to private sector development, the EBRD could engage in selective policy-based sovereign/sub-sovereign lending to unlock opportunities for the private sector. Meanwhile, the EIB, as the EU's supranational promotional bank, could focus its activities on large, strategic markets outside the EU, whilst reducing activity in some of the smaller markets. At a project level, the EIB could focus on larger and public sector projects (for example, in infrastructure and health), and more sizable private sector projects, given that it provides major tranches of finance – typically the EIB's operations are for a minimum of EUR 25 million, with an average size of around EUR 85 million (Council of the European Union, 2021b) – with long maturities and grace periods, particularly for public infrastructure projects.

A forthcoming opportunity to scope this sharper division of labour and explore new avenues for cooperation between the banks could come with the EBRD's planned expansion into Sub-Saharan Africa, where it could focus primarily on the private sector, in line with its mandate, reinforced by a new strategy commitment for 75 % of activities to be in the private sector. By contrast, the EIB could focus more on the public sector, particularly in the financing of large public infrastructure projects and health where needs remain significant.

2.3.3 The European Commission as ringmaster

NDICI-Global Europe provides the EU with an opportunity to act as a unifying central force in its strengthening of co-investment by European DFIs, direct investments, as well as its brokering and nurturing partnerships with other stakeholders. A strengthened and more efficient system calls for leveraging the strengths of all its members, with the European Commission in a central controlling role to: (i) select the most suitable implementing partners; (ii) indicate where there is scope for greater collaboration and a sharper division of labour among its members; (iii) align policy conditionality and enhance ex-ante coordination among all implementing partners; (iv) set and oversee application of operational policy guidelines; and (v) ensure that high standards as well as sound development banking prevail. Harmonising reporting processes and pursuing mutual reliance would certainly save time and money, increasing efficiencies for partner countries and clients, as well as EU taxpayers.

The Team Europe approach provides an opportunity to foster a more structured European DFI investment coordination platform as a vehicle for the syndication of finance and harmonisation of investment 'paperwork'. The European Commission, in the driving seat, could replicate the Western Balkans Investment Framework (WBIF), a regional blending facility that supports EU enlargement and socio-economic development in the Western Balkans. This has proven to be an effective platform for collaboration amongst donors, combining coordination, including policy issues, with financing. The European Commission provides strong direction for various international financial institutions and 19 bilateral donors. The WBIF is demonstrating the value of a well-functioning regional platform and indeed could be a model to replicate and adapt for other regions and countries, even on a thematic basis, such as with the Global Gateway, where the EU is seen as the political or policy anchor.

The systemic use of a similar regional or country platform that brings together all European development finance actors, external partners and national promotional banks, orchestrated by the European Commission, would lead to better managed cooperation, greater efficiency and ultimately more development impact. Some efforts in this direction have been undertaken in the framework of the EDFI membership network with initiatives such as the AgriFI and ElectriFI facilities, as previously noted. Yet, to date these activities remain fairly limited.

3 Conclusions and recommendations

3.1 A sustained engagement from all development banks

There is undoubtedly potential for the EU to: improve its visibility in the world; function as an inclusive financial institution; and improve the impact of European development finance. However, despite this potential, setting up a self-standing development bank would do little to address the major shortfall in finance for the SDGs. The COVID-19 crisis has been devastating across the developing world and demands an extraordinary and sustained response from all of Europe's development institutions. Europe's development banks have developed their own models and narratives. Today, they all lay claims to the title of financial provider in the service of European climate and development goals. Their individual sectoral expertise, their longstanding presence in countries of operation, their ability to act at speed (more quickly than large multilateral financial institutions where projects can take several years to close), crowd-in finance from large players, while also support smaller deal sizes are significant assets, as COVID-19 continues to intensify developing countries' SDG financing gaps and exerts downward pressure on ODA. Greater appetite for risk and the ability to accept sub-market returns could also help foster a more inclusive approach focused on marginalised populations. This could, in turn, help lead investors back into certain markets and countries on the other side of the COVID-19 crisis, multiplying their development impact. In contrast, setting up a single European Climate and Sustainable Development Bank would require a complete overhaul of the existing system and run the risk of creating a juggernaut institution with excessive powers that would side-line the other development banks. Moreover, it would entail significant additional capital outlays under the EU budget.

3.2 Reinforcing the complementarity of the EIB's and EBRD's business models

A neat division of labour by the EIB's public versus the EBRD's private lending operations has limitations. For instance, how would the two banks interact with existing multilateral financial institutions operating in Sub-Saharan Africa, such as the World Bank, the International Monetary Fund and the African Development Bank, on top of national and local promotional banks? Furthermore, it runs the risk of each bank significantly altering its business model and potentially replicating the other's model, which would result not only in further competition, with fragmentation in the implementation of SDGs and the Paris Agreement, but also large inefficiencies. It would also require both the EIB and the EBRD to cease (or phase out) activities they are currently undertaking at a time when more rather than less financing is required. Instead, the two banks should stop straying from their core competencies and focus on leveraging their own skill sets within their markets. In the margins, there will undoubtedly be some overlap, but this can be managed through 'mutual reliance' initiatives whereby they rely on each other's preparatory work, covenants and monitoring activities as well as impact reporting to avoid duplication in the co-financing of projects and reduce the burden on clients.

3.3 A stronger steer from the European Commission

Clearly, the most plausible, effective and efficient scenario is for the European Commission, on the back of NDICI-Global Europe and Team Europe, to act as a more unifying central force, setting and enforcing policy guidelines, as well as ensuring a clear and coherent policy steer which should include the EU's Global Gateway. Indeed, with a global remit and an expansive scope, management of the EU's Global Gateway will be the litmus test as to whether the European Commission can effectively steer the actors that make up the European development finance system. The European Commission should combine its 'policy first' agenda with the 'open architecture' approach so that its development policy objectives are delivered by those institutions best suited to the task, including the EIB, the EBRD and other European DFIs. In a post-COVID-19 context, the EFSD+ mechanism could be better harnessed to incentivise European DFIs to invest in high development impact interventions at the riskier and more innovative end of the spectrum. While stronger policy direction aiming at higher-risk and more 'hands-on' interventions could imply lower overall leverage ratios, the poorest places and the riskier projects are also those that are likely to find it increasingly difficult to source capital in the current economic environment. In particular, more should be done to meet investment needs for climate-smart agriculture and sustainable ocean industries. Indeed SDG 14 on 'life below water' remains one of the most underfunded SDGs, despite our oceans being described as the next 'investment frontier'.

As these can be more complex to prepare (thereby disincentivising applications), the European Commission must play a stronger role in helping to develop the supply of projects, providing project preparation support and assisting DFIs to coordinate, while ensuring that smaller DFIs are integrated. Through its European Investment Advisory Hub, the EU has built solid experience in project preparation within its own borders for internal investments by connecting project promoters and intermediaries with advisory partners who work directly together to help projects reach the financing stage. Replicating this approach, the European Commission could establish an 'Accelerator Hub' for its external investments, to provide targeted support throughout all project stages to: identify, prepare and develop investment projects; provide upstream advice on market studies, sector strategies and project screening; as well as supplying financial guidance to enhance companies' ability to access adequate sources of financing (Gavas and Pleeck, 2021).

3.4 The role of the European Parliament

The European Parliament could lend its voice to the call for greater coordination among EU development actors and institutions. NDICI-Global Europe itself allows opportunities for the European Parliament's further engagement in and control over EU development policy as well as shaping a common ruleset for its effective implementation. The biannual 'geopolitical dialogue' with the European Commission (comprising high-level dialogue and working-level dialogues) will be a crucial point to interrogate its implementation. The European Parliament should seize this opportunity to co-determine and monitor overarching strategic choices in relation to EFAD.

At a strategic level, the European Parliament should monitor how much both the European Commission and the EIB are aligning their external finance with effective development principles. These include: (i) development impact with a strong focus on the development of local capital markets, additionality and crowding in private investment; (ii) policy coherence alongside strong ownership in partner countries; (iii) effective coordination using regional and country platforms as well as partnerships; and (iv) technical expertise alongside presence and experience in countries of operation.

On NDICI-Global Europe, the European Parliament should ensure that interventions aim to: reach underserved populations; target more challenging development settings such as fragile or conflict-affected countries; focus on the more 'underserved' thematic sectors, such as climate-smart agriculture, biodiversity, the oceans, inclusive healthcare and sanitary systems; as well as focus on new and emerging technologies.

On the EFSD+, as a Strategic Board observer, the European Parliament should monitor how much the European Commission incentivises European DFIs to invest in high development impact interventions at the riskier and more innovative end of the spectrum, as well as the extent to which the European Commission is increasing its capacities, including those of EU delegations so that they are able to play a stronger role in strengthening coherence amongst European DFIs in the field (European Commission, 2020c).

Finally, the European Parliament has a key role to play in scrutinising political objectives and expected results of Team Europe both at general and specific levels (that of individual TEIs), ensuring that: (i) TEIs work alongside existing mechanisms and complement rather than replace the multi-annual indicative programmes; (ii) partner country ownership is being taken into account; and (iii) intervention costs represent value for money. This will be all the more important as the Global Gateway begins to roll out. Furthermore, the European Parliament should ensure that adequate investment is assigned to TEI's independent evaluation and that all results are publicly available.

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Briefing - A new European Financial Architecture for Development: what roles for the EIB, EBRD and Member States' DFIs?

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

European Parliament

BRIEFING

A new European Financial Architecture for Development: what roles for the EIB, EBRD and Member States' DFIs?

ABSTRACT

This briefing aims to assess the extent to which EFAD members (the European Investment Bank, the European Bank for Reconstruction and Development and Member States' Development Finance Institutions) respond to EU expectations, in terms of development orientation and EU global influence. It does so by drawing on key documents and data published by these institutions and by the European Commission in the context of its External Investment Plan and Team Europe. The Briefing concludes that, although the Team Europe approach emerged as a response to the COVID-19 crisis, it has overlapped with an intense debate on EFAD fragmentation, entry into force of the new multiannual financial framework, enhancement of the European Union External Investment Plan and other political factors that have provided momentum to the old idea of working better together. From this perspective, the Briefing supports intentions of maintaining the existing institutional architecture (Status Quo+ scenario) and provides recommendations for enhancing the role of each EFAD member, including: the EIB's active involvement in developing planning at country level; expansion of EBRD operations to some Sub-Saharan countries; and reinforcement of the EU-African Development Bank partnership in private sector development. It also recommends that the EP, including DEVE, request a Team Europe annual report looking at collaboration among EFAD members from the long-term perspective of EU development policies' integration and recommends the EP explores the possibility of improving EFAD members' regulatory convergence by means of EU legislation.

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List of abbreviations

AECID	Spanish Agency for International Development Cooperation
AFD	Agence Française de Développement
AfDB	African Development Bank
CDP	Cassa Depositi e Prestiti SpA
DEVE	European Parliament's Committee on Development
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDF	European Development Fund
EDFI	European Development Finance Institutions
EFAD	European Financial Architecture for Development
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EP	European Parliament
EU	European Union
HQ	Headquarters
KfW	Kreditanstalt für Wiederaufbau
MFF	Multiannual Financial Framework
MSME	Micro, Small, Medium Enterprises
SDG	Sustainable Development Goal
TEI	Team Europe Initiative

1 Introduction

The European Financial Architecture for Development (EFAD) is a complex network of public institutions, financial resources and norms that provides developing countries with grants, loans, capital and mixed instruments, such as blended finance and guarantees. It comprises the European Union's (EU) institutions, Member States' government departments and agencies, as well as their development banks and financial institutions (DFIs) and their delegations on the ground.

The design of this complex architecture and how to improve its internal coordination in order to increase development impact has been subject to much analysis. Within development studies, the specificities of intra-EU donor coordination have been looked at from the perspective of aid effectiveness (Delputte et al., 2014; Olivié and Pérez, 2015; Bergmann et al., 2019). From a more practical perspective, the Council of the EU has recently commissioned two studies that focused on the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

The first of these analyses was conducted by a High-Level Group of Wise Persons (Wieser et al., 2019) and concluded that the EFAD's complexity was excessive, signalling gaps and overlaps that undermined the EU's development impact and leadership. Their report recommended the consolidation and streamlining of development finance and climate activities outside the EU into a single entity, the European Climate and Sustainable Development Bank, with three options or scenarios for such consolidations. However, this was followed by a feasibility study, which warned against the length and cost of these recommendations (Council of the EU, 2021a).

The Council then decided to preserve the existing institutional status quo, while at the same time improving the whole system's capacity through enhanced synergies and political steering (Council of the EU, 2021b). This option was originally called the 'Status Quo+' scenario but later relabelled as 'Team Europe' in connection with broader EU coordination initiatives intended to boost response to the COVID-19 crisis in terms of development impact and EU influence (Gavas and Bilal, 2021a; EC, 2020).

Under the Team Europe framework, figures of development finance mobilisation in the EU at large were presented, joint programming was enhanced and a new modality of joint implementation was launched: the Team Europe Initiatives (TEI). This response overlapped with the new Multiannual Financial Framework's (MFF) entry into force, with an increase in overall development finance and enhancement of the EU External Investment Plan in terms of resources and governance.

The European Parliament's (EP) Committee on Development (DEVE) is organising a workshop to discuss ongoing evolution of the EFAD and this Briefing intends to contribute to such discussion, reviewing the roles of the EIB, the EBRD and Member States' DFIs from the perspective of EFAD's overall performance. This review draws on key documents and data published by each institution, as well as those published by the European Commission (EC) in the context of its External Investment Plan and Team Europe. The actual or potential contribution of each institution to overall EFAD performance is analysed here from a twofold perspective: its development orientation and its contribution to EU leadership.

With regard to development, this Briefing is by no means a study on the EFAD's development impact under a current or alternative design. Assessing and measuring the actual impact on development of cooperation instruments is always difficult and the use of debt instruments as well as private sector instruments in development cooperation in particular has been subject to debate in academia, civil society and DFIs themselves (Craviotto, 2021; Kwakkenbos, 2012; Buendia, 2013; Attridge et al., 2019). These debates are not recalled here, with the focus rather on EFAD's development orientation through certain proxy variables that are also considered in the above-cited 2019 report, namely: resource mobilisation; geographic and thematic focus; and development planning capacities.

Additionally, this Briefing assesses how each institution can collaborate in enhancing the EU's international leadership, in line with the discourse of the 'geopolitical Commission'. In this respect, the institutions are analysed in terms of EU visibility, alignment to the political steering of EU institutions and intra-EU coordination issues.

The first section provides some background on each institution's historical role and more recent participation in policy developments from a broad EU standpoint. The second section assesses how much these institutions currently respond to EU expectations in terms of development orientation and EU global influence. The final section ends with some recommendations on how to optimise the contribution of each institution to overall EFAD performance and how to follow this within the European Parliament and DEVE.

2 Background

2.1 The EIB

The EIB is an EU body established by the Treaty of Rome in 1953 to finance investments which contribute to regional cohesion or have a European added value. Today, 88 % of its portfolio is still in the EU (EIB, 2021a; 2021c).

Nevertheless, its external operations date back to the 1960s, when the Yaoundé Conventions incorporated reimbursable aid instruments to the European Development Fund (EDF). Since then, its geographical scope has progressively expanded, with specific mandates and resources from the EDF and the general EU budget, partly combined with its own funding.

During implementation of the 2014-2020 MFF, the EIB managed most of the EU's external lending operations in exclusivity, as in previous programming cycles, while participating in more open institutional arrangements fuelled with growing EU budgetary resources, such as regional blending platforms and the EU external investment plan with its European Fund for Sustainable Development (EFSD).

In 2020, EIB's operations outside the EU amounted to EUR 9.3 billion, of which EUR 5 billion were allocated to Africa. This represented an increase of 50 % in the continent and raised the bank's share of external operations in least developed countries to 71 %. Such an increase included its contribution to COVAX in supporting global equitable access to COVID-19 vaccines, which consisted in the mobilisation of EU budget guarantees for EUR 458 billion, that is 30 % of EFSD guarantees. EFSD guarantees also supported the EIB's operations on small to medium-sized enterprises and renewable energy, the latter involving three Member States' public banks. The EIB was also the main lender in EFSD blended projects, with 30 operations that represented 24 % of its budget, concentrated in Sub-Saharan countries (52 %) and the transport and energy sectors (67 %).

In the current MFF (2021-2027), guarantees under EFSD+ will provide the EIB with a dedicated window of EUR 26.7 billion whilst EUR 13.1 billion will be channelled through an open architecture in which the EIB also participates. Both guarantees and grants available for blended finance are governed by the EFSD+ strategic board, of which the EIB is a member, while blended projects follow the guidelines of regional investment platforms, in which the EIB also participates. The bank is involved in 105 out of 147 Team Europe Initiatives[1].

The EIB has 30 offices outside the Union, which play a representative role, but it centralises its technical and financial expertise at Headquarters (HQ) level. It has not deployed significant policy and project capacities at country level, yet has achieved global outreach by means of large projects and sizable borrowing, often public, and by reliance on financial intermediaries to reach Micro, Small and Medium

[1] See table 2 elaborated with data from the 'joint programming and team Europe initiatives' tracker (EC 2022a) consulted on 17 January 2022.

Enterprises (MSMEs). Moreover, the EIB has historically considered its development planning to be limited to the geographic and thematic indications of each mandate, as well as the portfolio's follow-up by the EC, which could exert veto power before any final financial decision was taken.

In this new programming cycle, following the idea of 'policy first', it has been decided that EC intervention should occur in earlier phases of the project cycle and that EIB capacities should be reinforced in the field in order to team up with the EC in policy dialogue and project identification. At HQ, it has also been decided to regroup the staff dedicated to external lending operations under a new EIB development branch: 'EIB Global' (EIB, 2021b).

2.2 The EBRD

The EBRD was established after the fall of the Berlin Wall to help transitions towards open market-oriented economies and the promotion of private entrepreneurial initiatives in Central and Eastern Europe. Today, its transition concept has been revisited and focuses not only on market competition but also on inclusiveness, good governance, environmental sustainability, resilience and integration.

In order to engage fully in policy reforms related to economic transition, the EBRD combines investments with technical assistance. From this perspective, unlike the EIB, it builds significant capacities in field offices that engage both in country analysis and policy dialogue, as well as project appraisal.

Its geographical scope, with 75 % of operations outside the EU, has expanded on several occasions and now covers 26 non-EU countries, including pre-accession countries, the Eastern Neighbourhood, Russia, Central Asia and part of the Southern Neighbourhood (EBRD, 2021b; 2021c).

The EC and the EIB own 3 % of EBRD's capital. The EU and its Member States combined own 54 % of the EBRD's capital. As in any regional development bank, most donor countries and countries of operations hold shares and participate in the bank's governance. The United States is the largest single shareholder, but other major powers such as China, Russia, the United Kingdom, Canada and Japan also hold stakes.

Beyond shareholding, the EU has been by far the largest donor to the EBRD since its inception. Under the 2017-2020 External Investment Plan, it received 14 % of the EC's contributions to blended finance and 9 % of the guaranteed budget. In the current programming cycle, the EBRD is already involved in 19 of the 147 TEIs that have been announced so far and has requested to be admitted as observer to the EFSD+ strategic board. The EBRD has also been an active participant in four regional EU blending platforms: the Western Balkans Investment Framework; the Neighbourhood Investment Platform; the Investment Facility for Central Asia; and the Asia Investment Facility.

2.3 Member States' development finance institutions

While holding EBRD and EIB shares, most EU Member States also own national banks and institutions which provide development finance. These national DFIs are not homogeneous, differing in their client focus (private, public or both), their geographic focus (international or national/international), their institutional umbrella and funding. In some cases, their institutional design and organisational capacities are also under review.

The most relevant institutions of this kind in terms of resources are the *Agence Française de Développement* (AFD) and the *Kreditanstalt für Wiederaufbau* (KfW), with each of them investing over EUR 12 billion annually in developing countries. They are the main development agencies in France and Germany, respectively, two donor countries that have historically stood out in the EU and the Organisation for European Economic Co-operation (OECD) for their reliance on reimbursable aid instruments. With the exception of their governing bodies, both institutions are comparable to multilateral development banks in terms of geographic and sectorial scope, partners and clients, as well as financial and human resources. They both have an important network of delegations in developing countries.

Italy and Spain are also engaged in development finance activities but with more limited capacities. Italy provides loans through the *Cassa Depositi e Prestiti SpA* (CDP), which is a large public bank but has no capacity in the field. On the contrary, Spain has embedded a reimbursable aid fund, FONPRODE, in its development agency, *Agencia Española de Cooperación Internacional para el Desarrollo* (AECID), and therefore benefits from a large network of delegations, albeit lacking the expertise of a bank, as its background is in grant management and some micro-finance.

Financial support for the private sector from Member States is more generalised and standardised. More than half own financial companies that provide loans, capital investment and technical assistance to private sector enterprises in developing countries. These companies have a long record that often goes back to colonial times. Though different in every country, they tend to combine development goals with domestic economic interests, and they support both developing countries' companies and European companies operating in developing countries.

These DFIs focussing on the private sector form the European Development Finance Institutions (EDFI) Association[2], which was established in Brussels during 1992 with the purpose of strengthening cooperation as well as sharing knowledge and learning. In practice, this cooperation has resulted in: the adoption of common standards on responsible development finance or impact assessment; the establishment of a permanent dialogue with EU institutions (e.g. the EDFI has also requested to join the EFSD+ strategic board as an observer); along with the design and implementation of joint initiatives. In 2016, the EDFI established a subsidiary to manage EU-funded programmes, ElectriFI and AgriFI, with investments in renewable energy and sustainable agriculture sectors respectively.

More recently, following the Paris Summit on the Financing of African Economies in May 2021, AECID, AFD, CDP and KfW have also set up a European platform with the explicit purpose of supporting a 'more efficient and comprehensive EFAD' (AFD, 2021a). They have adopted a joint strategic framework that draws on the Team Europe approach and are now in the process of elaborating a co-financing framework to overcome any legal difficulties with joint financing and implementation. This 'Enhanced Partnership' lacks a formal establishment, according to the information released so far, but could play a similar role to that of the EDFI in public finance and in climate-related operations covering both public and private actors, notably in Sub-Saharan Africa (AFD, 2021a; Gavas and Bilal, 2021a)[3].

3 Analysis

3.1 Overall resource mobilisation

The EU institutions' ultimate motive to review EFAD's capacities has to do with the Sustainable Development Goals (SDGs) financial gap, which has been estimated at USD 2.5 trillion per year. The annual Global Europe budget of between EUR 15 and 16 billion can significantly contribute to filling this gap only by leveraging other resources. Using grants and guarantees to increase the capacities of public development institutions, that either provide public resources with revolving funds or raise funds in capital

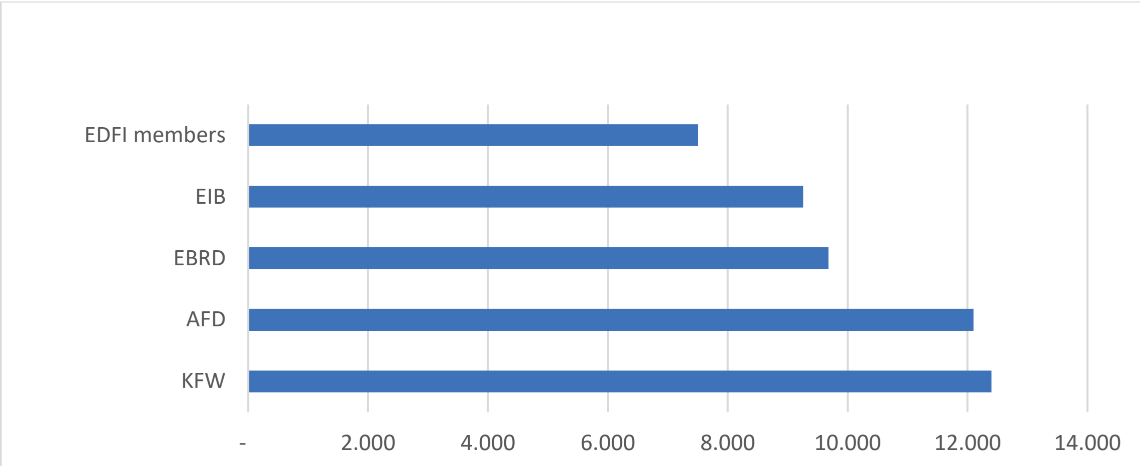
[2] The EU member institutions of the EDFI include the Belgian Investment Company For Developing Countries (Bio), the Compañía Española de Financiación del Desarrollo (COFIDES), the German Development Finance Institution (DEG), the Finnish Fund for Industrial Cooperation (Finnfund), the Dutch Development Bank (FMO), the Danish Investment Fund for Developing Countries (IFU), the Development Bank of Austria (OeEB), the French Société De Promotion Et De Participation Pour La Coopération Economique (Proparco), the Società Italiana Per Le Imprese All'estero & Cdc Development Finance (SIMEST/CDP), the Portuguese Sociedade Para O Financiamento Do Desenvolvimento (Sofid) and the Swedfund International. In addition to Member States' DFIs, the EDFI also has members from Switzerland, Norway and the United Kingdom, while the remaining 16 EU Member States – Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania, Slovakia and Slovenia – are not represented in the EDFI.

[3] The members of the Enhanced Partnership have direct linkages with EDFI members dedicated to private sector development.

markets, is a first lever effect sought with this approach. The second effect would be international private investment that is expected to bolster underserved markets along with institutional investors.

From that perspective, all EFAD members are needed. Indeed, despite the guarantees historically made available exclusively to the EIB, other institutions have a similar resource mobilisation capacity according to their latest annual reports. The EBRD manages a significant volume of investments in developing countries with its own risk; the AFD and KfW even exceed such volume; and combined, members of the EDFI association come close.

Figure 1. 2020 investments by main European DFIs
(EIB figures capture only operations outside the EU)



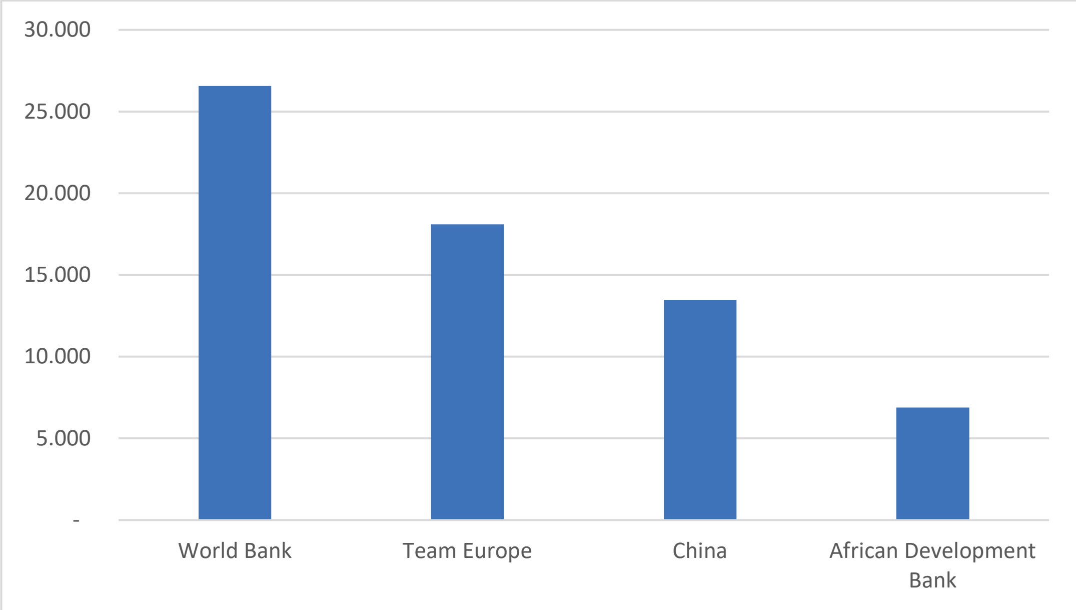
Source: Author's own elaboration from DFIs annual reports (AFD 2021b; EBRD 2021a; EDFI 2020; EIB 2021c; KfW 2020).

3.2 EU visibility

The loans and capital investments that provide more visibility to the EU *vis-à-vis* borrowers and third parties are those of the EIB, which is and presents itself as 'the EU Bank'. Operations run by DFIs, under the umbrella of national governments, or by the EBRD, with shareholders from all over the world and headquarters in London, are not directly associated with the EU unless its budget is mobilised through blending or guarantee programmes.

However, the EIB would at least have to triple its investments abroad to reach the level of some competitors. Chinese lending operations in recent years in Africa have surpassed USD 15 billion (Usman, 2021), while at their peak EIB operations in the region have reached EUR 5 billion.

Figure 2. Investments in Africa by development banks



Source: Authors' own elaboration from DFIs annual reports (AFD 2021b; AfDB 2021; EBRD 2021a; EDFI 2020; EIB 2021c; KFW 2020; Usman 2021; WB 2020).

The COVID-19 crisis might have contributed to overcoming this limitation (see Figure 2). At this critical juncture, the 2020 EC Communication on its global response reiterated the EU's position as the world's largest donor. It triggered a pledging conference, aggregated the responses of each EFAD member and presented the results as a single financial package under the Team Europe arrangement (Burni et al., 2021). Team Europe has become a common brand that might not only be used in presentations made by EU institutions but could also be disseminated along with the investments and grants of all its members.

3.3 Alignment to EU political steering

The mission letter for Commissioner Jutta Urpilainen acknowledged that 'the EU, its Member States and international financial institutions they hold shares in, together have a sizeable financial assistance capacity' and proposed 'a new comprehensive coordination mechanism with the aim of ensuring we collectively use this potential in a coherent way that promotes the EU's values and strategic objectives' (EC, 2019: 5). In addition to making EU leadership visible, as explained above, it is expected that such a leading position will be used to exert influence on third countries in advancing the EU's political values and interests on certain priority issues, such as multilateralism, decarbonisation, democracy, human rights and gender equality.

While the EC, through the programming of geographic assistance and the launch of overarching thematic strategies such as the new Global Gateway (EC, 2021), may influence and steer the activities of all EFAD members, the EIB as 'the EU bank' is better placed than any other financial institution in being at the forefront on certain issues in full political alignment with the Council (Gavas and Bilal, 2021b). Such political alignment would not only materialise in the establishment of certain priorities regarding the sectoral and geographical allocation of investments, but also on certain radical decisions excluding countries (e.g. Russia) or activities (e.g. carbon-based production) on the basis of an EU political position.

3.4 Development planning

Despite its full alignment with EU institutions' political steering, the EIB has been strongly criticised for lacking a clearer positioning with regard to specific development targets that are prioritised by the EC in every country and sector. It has been said that the EIB is not a development bank (Gavas and Bilal, 2021b).

By contrast, the EBRD business model has been commended for its combination of investments with policy dialogue and technical assistance, as well as its engagement in country-based development strategies.

Additionally, such engagement provides the EBRD with the knowledge necessary to accept higher levels of credit risk without relying on guarantees from shareholders and it can also be said to have a better capacity for operating in developing countries. Conversely, the EIB has a risk-averse culture related to its AAA rating. This and the possible crowding-out effects of its bona fide loans have been criticised by experts.

For this reason, expectations were created regarding the possibility of expanding EFAD capacities in accordance with the EBRD and its successful business model (Wieser et al., 2019; Fleming and Hall, 2020). Finally, the Status Quo+ solution requires the EIB to engage in development planning at sector and country levels as well as providing the EC with field support regarding policy dialogue.

This will certainly be facilitated by reinforcement of mixed finance, the EFSD+ governance and the number of TEIs in which the EIB is involved. However, beyond the creation of a business branch, it is not clear how the EIB is going to adapt its business model internally, following an announcement that any enhancement of its development focus must be achieved without extra cost.

Finally, it must be stated that EDFI members have also been criticised by civil society observers for their demand-driven approach to private sector development as well as the lack of connection between their investments and the strategies agreed by their own governments with partner countries. In general terms, grants and loans have been managed separately at EU and Member States level, in the latter case not being strategically oriented towards specific development targets. Similarly, investment promotion agencies in developing countries have historically sought to attract international investment regardless *per se* and only in recent years have the concepts of for-development investment and bankable SDG projects been broadly disseminated and certain investments prioritised over others.

3.5 Geographic and thematic focus

A well-functioning EFAD should tap into EU budgets to drive their funding towards geographic and thematic priorities agreed at EU level, including: the Middle East and North African as well as Sub-Saharan countries; climate action; and private sector development. As previously mentioned, the EIB is noted for its environmental focus with more than 50 years of experience in Africa. Its finance packages are associated with large public infrastructure projects, although the European Investment Fund targeting financial intermediaries, which in turn target private companies, has partly nuanced this feature[4].

The EBRD could very well complement the EIB in this respect, but its regional mandate does not include Sub-Saharan Africa or least developed countries. Accordingly, its capacities cannot be used where they are most needed unless its mandate is expanded. In this respect, it must be recalled that following the Arab Spring, the EBRD successfully expanded its activities to southern partner countries where job creation and inclusive growth became strategic priorities for EU external action.

[4] The EIF mostly operates in EU and pre-accession countries.

Table 1. Implementation of blending projects by DFI, region and selected topics
2018-2020 External Investment Plan, EUR million

		EIB	KfW	AFD	EBRD	AfDB	EDFI	Total
Eastern Neighbourhood		251	184	8	179		13	634
Of which:	-MSMEs	75	75		114		-	264
	-Climate	176	109	8	65		13	370
Southern Neighbourhood		127	277	140	284		-	828
Of which:	-MSMEs	26	98	15	130		-	269
	-Climate	41	166	24	155		-	385
Sub-Saharan Africa		417	100	443		680	237	1.877
Of which:	-MSMEs		8	27		112	21	169
	-Climate	378	82	386		538	170	1.553
Unspecified							-	8
Total		795	562	599	463	680	250	3.348
Of which:	-MSMEs	101	182	42	244	112	21	702
	-Climate	595	357	417	219	538	183	2.309

Source: Elaborated with EC (2022b) data.

Implementation of the EFSD blending projects between 2018 and 2020 confirmed that the EIB is the main financier of climate-related EU projects and that the EBRD leads MSME support in the neighbourhood[5]. It also indicated that the EFAD needs to reinforce its capacities to support private sector development in Africa, as suggested in the Wise Persons' report. Despite the priority given to this purpose, only EUR 187 million, representing less than 6 % of the EFSD blending budget, were dedicated to African MSMEs. Moreover, most of these funds were channelled through an African partner, the African Development Bank. Within the EU, the main actors in this niche were the AFD and the EDFI as a whole.

3.6 Coordination (and partnerships)

As mentioned in the previous section, Team Europe is more than just a brand here. At the time of writing, the EC webpage is covering the launch of 75 joint programmes and 147 TEIs[6], with estimates that around EUR 8.2 billion of the EC's resources available for country cooperation agreements of a four-year duration would be framed under TEIs. The capacity of these initiatives to steer aid from national budgets and DFIs is not yet known[7] but Germany has already put a similar figure on the table (EUR 7.15 billion). The webpage also mentions a unanimous positive response to this approach, which includes the main development banks (see Table 2).

[5] This analysis refers only to the management of EU budget contributions to blending projects. EU-funded blending finance lending is a small share of overall operations of the various EFAD members.
[6] The Commission's online 'Team Europe Initiative and Joint Programming tracker' can be accessed for an up-to-date overview.
[7] The figures provided here were collected from interviews and have not been triangulated with public written sources.

Table 2. Participation of development finance institutions in Team Europe
Number of national and regional Team Europe Initiatives in which each institution participates.

DFI	National	Regional	Total
AFD	73	2	75
BIO	5	0	5
CDP	10	2	12
EBRD	14	5	19
EIB	97	8	105
Finnfund	6	0	6
FMO	47	1	48
KfW	45	3	48
Proparco	30	3	33

Source: elaborated with EC (2022a) data.

TEIs involve all Member States, their donor agencies and grant programmes, but build upon the success of the 2017-2020 External Investment Plan, which in turn draws on previous experiences in regional blending facilities. In the previous programming cycle, all resources made available for guarantees and blending finance were quickly invested by European and national DFI, the EIB being by far its main implementer, followed by the KfW, the AFD and the EBRD.

Table 3. EFSD budget allocated to each DFI, 2018-20
EUR Million

DFI	Blending	Guarantees*	Total
EIB	795	574	1.368
KfW	562	227	788
AFD	599	176	775
AfDB	680	-	680
EBRD	463	150	613
FMO	151	140	291
IFAD	39	-	39
COFIDES	7	20	27
PROPARCO	25	-	25
IFU	16	-	16
NEFCO	13	-	13

* Budgets allocated to consortia have been linearly divided among members

Source: Elaborated with EC (2022b) data.

In the current programming cycle, the EFSD+ budget has been significantly increased and its coordination improved with the establishment of a strategic board. This board involves: the EC; the EIB and Member States as members; and the EP as observer. The EBRD and the EDFI have also requested observer status. The board has already identified three overarching thematic priorities for guarantees: the Green Deal; Global Gateways; as well as jobs and inclusive growth.

It must also be mentioned that Member State participants in the EFAD are also working on improving their coordination both among themselves and *vis-à-vis* EU institutions. This has been the main purpose not only of the EDFI but also the new platform under construction by France, Germany, Italy and Spain. Interestingly, along with the launch of specific co-financing activities, these partnerships conduct work on harmonisation and standardisation of procedures, going from contractual issues to impact assessment, which is very much needed considering that every institution is conditioned by a different regulatory framework and historical background.

This process of coordination between European and national institutions, although encouraged by the EC, has followed a bottom-up approach. The involvement of each Member States has depended on respective levels of interest, which in turn has to a large extent depended on background. As indicated previously, in the field of private sector finance the EDFI association has been able to gather DFIs from 11 Member States, but a majority of EU countries are still absent from this structure, while some non-EU countries' DFIs are participating. In the field of public sector finance, the imbalances are even more pronounced given the incomparable size of German and French development banks.

In other words, the distribution of EFAD partnerships and related EU funding is not balanced across countries. This not only affects Member States' public institutions but also a second layer of European actors that are expected to add financial and technical capacities to the system, including companies operating in developing countries, private investors and consultants.

4 Conclusions and recommendations

From an institutional standpoint, the Team Europe approach, introduced by the EC Communication on the EU global response to the COVID-19 crisis, has consisted in relabelling the Status Quo+ scenario. In other words, it has not resulted in a new institutional architecture, as suggested by the 2019 Wise Persons' report. That said, Team Europe's creation has brought about a critical juncture at which several elements have coincided and provided political momentum to the old idea of working better together.

In addition to pressure that the Wise Persons' report put on the EIB business model and the EFAD's fragmentation, other determinants for assembling Team Europe were: (i) the crisis's magnitude; (ii) weakened international leadership from the United States; (iii) the launch of a 'geopolitical Commission'; (iv) successful completion of the External Investment Plan through an open architecture; as well as (iv) entry into force of the new MFF and its regulations. The new framework has introduced significant improvements, building upon lessons learnt from fragmentation of EU development policy in previous MFFs and best practices in EU donor coordination.

The Team Europe label has unexpectedly facilitated presentation of the EC, the 27 Member States and their financial institutions as one single donor. It has also enhanced the use of pre-existing coordination mechanisms, such as joint programming, and launched a new modality of joint implementation that seems to be a great success in terms of EU partnerships: the TEIs. Again, these TEIs follow previous experiences in blending finance and delegated cooperation, and will hopefully precede future achievements, such as joint monitoring, evaluation and learning. These ongoing developments must be seen as part of a longer trajectory for the integration of EU development policies.

The above analysis on this critical Team Europe juncture leads to a number of conclusions on roles played by the EIB, the EBRD and Member States' DFIs in jointly increasing the EU's development impact and global influence. Included here are some recommendations on how to reinforce the contribution of each institution, by tapping into historical background and recent involvement at EU level, as well as the supervisory and legislative powers of the European Parliament.

4.1 The EIB, the EU development bank with a global scope

In institutional terms, the EIB is best positioned to partner with the EC in development finance across the world, as has been reaffirmed by current decisions of the Council and its board. In essence, the EIB has been the EU's development bank for decades. However, it has adopted a business model that currently does not meet EU institutions' expectations in regard to gearing and leveraging significant volumes of finance towards specific geographic and thematic targets in combination with other tools such as policy dialogue and technical assistance.

Accordingly, to align with such expectations, the EIB must actively engage in developing planning, monitoring and evaluation at country level, hand in hand with EU Delegations. Several steps have already been taken in this direction, such as the creation of a high-level advisory group within the bank's governance structure and the regrouping of staff dedicated to third country investments in a development branch. However, there is still little information on a key aspect of this business model shift: the deployment of resources in the field.

4.2 The EBRD, a regional development bank for the extended neighbourhood

The EIB's evident role as the financial arm of EU policies, including development, does not prevent the EU from proposing and supporting the expansion of EBRD operations to countries in which its sectoral mandate and expertise is needed. These needs are greater than their joint resources and they can easily divide their labour according to different trajectories (e.g. climate vs. private sector development, infrastructure finance vs. MSMEs finance, public vs. private borrowers, etc.).

Considering that this European regional bank has already reached Mongolia in the east and expanded operations to the Southern Neighbourhood following the Arab Spring, it could also reach countries in the extended Southern Neighbourhood (the Sahel and Horn of Africa) in order to partner with EU institutions in private sector development and job creation. In terms of development policy, this would be consistent with other strategic EU decisions which have overcome the historical boundaries of aid recipient regions, for example in establishing the EU Emergency Trust Fund for Africa following the Valletta Summit on Migration in 2015.

4.3 The EDFIs are also needed in Sub-Saharan Africa

Considering the pressing need to boost private sector development in Sub-Saharan Africa and the difficulties found in serving this niche of development cooperation, it is recommended that EU institutions enhance their partnerships with European institutions already operating in the field. This is the mandate of EDFI members, which together constitute a significant actor (see Figure 1) and leverage private sector resources as well as business projects, largely due to their connections with developing countries' banks, EU companies and investors (although some also have delegations in the field).

At HQ level they have established fluent relations with EU Institutions but have not as yet made a significant contribution to private sector development in Africa under the 2018-2020 External Investment Plan. To provide a larger pipeline of projects relevant to EU strategies, they should also reinforce their alignment with policies and programmes agreed in the field by the EU Delegations and Member States.

4.4 The potential of an EU-AfDB reinforced partnership

In implementing the previous External Investment Plan, the African Development Bank (AfDB) stood out as the main EU partner for private sector development in Sub-Saharan Africa, which is probably related to its grassroot connections in the region. However, this regional bank, with a significant portion of EU shareholders, has a low volume of operations compared with other regional banks such as the Inter-American Development Bank and the Asian Development Bank.

It is recommended, therefore, that an EU-AfDB partnership be evaluated. In doing so, based on EFSD implementation, the latter's ability to identify job-creating investments should be assessed in considering a scale-up of this partnership[8]. This evaluation should also look at the bank's overall capacity and the possibility of expanding it through core funding and technical assistance involving EU partners. In this respect, it should be recalled that Article 40 of the NDICI-Global Europe Regulation (EU, 2021) indicates that the envelope for NDICI-Global Europe geographic programmes may be used to contribute to the capital endowment of European and other development finance institutions.

4.5 A Team Europe annual report and the role of the European Parliament

The EP and DEVE should further reinforce EFAD's functioning under the Team Europe approach by expanding supervisory scope to the whole team. While the EP's primary mandate covers the EC and the EIB, particularly regarding use of the EU budget, Team Europe joint programmes and initiatives provide the opportunity to follow-up on EU institutions and Member States development finance jointly. This should materialise in the submission of a Team Europe annual report to the EP by the EC and the Council.

In following up Team Europe achievements, it is recommended that the EP collects information on the following issues:

- **Resource mobilisation:** as in the EU global response, aggregated budgets, estimations and actuals of the EU at large reaffirm its leading global governance position in the developing world. In addition to public resources, it is also recommended that quantitative estimations on resources leveraged be provided, along with more qualitative information on how lever effects are sought and measured.
- **Development planning and impact:** information on resource mobilisation should come with definitions and measurement of development targets, including geographic and sectoral goals, as well as the best information available on actual development effects. To this end, it is recommended that meta-evaluation and joint monitoring be promoted within Team Europe.
- **Harmonisation and EU standards**: attention should be paid to the practical difficulties of working together, solutions found by Member States, their associations and platforms, as well as the EC.
- **The EU integration perspective:** Team Europe should be looked at by the EP as a milestone in a longer process of soft integration. In this respect, attention should be given to EU added value in joint programmes and TEIs as well as the subsidiarity principle's application in the division of labour among the EC, EU Delegations and the EIB, on the one hand, and the Member States, their DFIs, embassies and field offices, on the other.
- **Member States' involvement:** the report should pay further attention to Member States' entities participating in TEI and blended finance projects, including public agencies, but also private financial and implementing partners (private banks, investors, companies and consultants).

[8] During the 6th European Union - African Union Summit on the 17 and 18 February 2022, an Africa - Europe Investment Package of at least EUR 150 billion was announced to support common ambitions for the 2030 Agenda and AU Agenda 2063. It will be comprised of an investment, a Health and an Education Package (European Council, 2022).

Finally, the harmonisation and standardisation aspects of Team Europe should also be closely followed by the EP from a legislative perspective. As in many other policy areas, the regulatory convergence of Team Europe members could be sought by means of EU legislation.

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Workshop proceedings

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

WORKSHOP PROCEEDINGS

The future of the European Financial Architecture for Development

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1 Workshop Programme

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
POLICY DEPARTMENT

European Parliament

For the Committee on Development (DEVE)

WORKSHOP

The Future of the European Financial Architecture for Development

Monday 7 February 2022, 13.45-15.45
Meeting room ASP 1E2[1] and remote participation by Interactio *(link shared separately)*
Webstreaming / EN-FR interpretation
Building Altiero Spinelli
European Parliament, Brussels

DRAFT PROGRAMME

13.45-13.55 Welcome and introductory remarks by

- **Charles Goerens**, Member of the Committee on Development, Rapporteur on the European Financial Architecture for Development

Panel 1: Evaluation of the state of play of the European Financial Architecture for Development

Moderated by Charles Goerens

13.55-14.05 Expert presentation

- **Mikaela Gavas**, Co-Director of Development Cooperation in Europe and Senior Policy Fellow, Center for Global Development

14.05-14.20 Respondents

- **Antti Pekka Karhunen**, Director of Sustainable Finance, Investment and Jobs, Economy that works for the People (INTPA.E), DG for International Partnerships (INTPA), European Commission
- **Michele Cervone**, Head of Division for Financing Instruments and International Cooperation, European External Action Service
- **Jeroen Kwakkenbos**, Deputy Head of EU Office, Oxfam International, on behalf of CONCORD

14.20-14.45 Q&A, Open discussion

[1] *Meeting room with capacity of 50 participants. Presence in person reserved for MEPs and confirmed speakers.*

Panel 2: The roles of the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and EU Member States' development finance institutions

Moderated by Charles Goerens

14.45-14.55 Expert presentation

- **Dr Aitor Perez**, Economist and Political Scientist, Ecoper

14.55-15.15 Respondents

- **Markus Berndt**, Deputy Director –General and acting head of EIB Global, European Investment Bank (EIB)
- **Carlos San Basilio**, Managing Director for Corporate Strategy, European Bank for Reconstruction and Development (EBRD)
- **Soren Andreasen**, General Manager, Association of European Development Finance Institutions (EDFI)
- **Christian Krämer**, Member of the Management Committee of the KfW Development Bank, in charge of Policy and Latin America, on behalf of the Enhanced Partnership Group (KfW - Germany, AFD - France, CDP-Italy, and AECID-Spain)

15.15-15.40 Q&A, open discussion

15.40-15.45 Concluding remarks by

- **Charles Goerens**, Member of the Committee on Development, Rapporteur on the European Financial Architecture for Development

EN

2 Introduction

The workshop titled 'The future of the European Financial Architecture for Development' was organised by the European Parliament's (EP) Directorate-General for External Policies (its Policy Department) for the Committee on Development (DEVE). It took place in hybrid (remote and in-person) web-streamed format[1] on 7 February 2022 under the chairmanship of MEP Charles Goerens (Renew Europe Group), rapporteur for the upcoming DEVE own initiative report on the topic. The aim of the workshop was to examine the state of play and the background of the Council decision to pursue the Status Quo+ (SQ+) option, as well as future options and scenarios for the European Financial Architecture for Development (EFAD). It also provided recommendations on the roles of the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and Member States' Development Financial Institutions (DFIs) in the context of the Team Europe approach and the implementation of the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe) Regulation.

3 Panel 1 – Evaluation of the state of play of the European Financial Architecture for Development

Panel 1 included an expert presentation from Mikaela Gavas (Co-Director and Senior Policy Fellow, Centre for Global Development - author of the related Briefing) and stakeholders' contributions from the European Commission (EC) Directorate-General for International Partnerships (DG INTPA), the European External Action Service (EEAS) and a representative of CONCORD.

3.1 Presentation by academic expert and stakeholders' contributions

To understand whether a big revolution of the system is required to deliver more effectively on current development challenges, **Ms Gavas'** presentation looked at EFAD's state of play, briefly outlining the EFAD process and its outcomes before presenting her expert recommendations to the European Parliament. Within a wide network of actors at European and national level, the European Union (EU) represents the single largest player (around 15 % of European development finance) and takes a central role in the global development agenda. European and international DFIs play a pivotal role, with EBRD strongly focussing on private sector investment (EUR 5.7 million) and EIB on public sector investment (EUR 8 million). Most funding comes in the form of Overseas Development Assistance (ODA - ca. 50 %), followed by public sector investments (25 %) and private loans (12 %).

Ms Gavas highlighted a number of challenges faced by the European financial system in support of development policy, namely: (i) lack of coordinated action and unified framework – leading to competition for visibility and investment undercutting potentially causing market distortions; (ii) duplication and approach incoherence (e.g. different procurement requirements, financing conditions, entry points and risk approaches) – placing heavy burdens on partner countries and the private sector; (iii) lack of transparency – increasing competition and reducing projects' bankability; (iv) different approaches across DFIs – obstructing public scrutiny and accountability; (v) absence of a common rule-set – hindering the efficiency of financial instruments and undermining their development impact. Attempts have been made to improve the system, at first through the External Investment Plan (EIP) and the European Fund for Sustainable Development (EFSD), followed by the NDICI Global-Europe Regulation, Team Europe and EFSD+.

EFSD (2017-2020), worth EUR 5.4 billion, succeeded in incentivising coordination and joint initiatives between DFIs/IFIs, both within and outside the EU. Five institutions provided 92 % of all blending projects

[1] The video-archive can be accessed here: https://multimedia.europarl.europa.eu/en/webstreaming/-poldepe_20220207-1345-COMMITTEE-DEVE

(EIB, *Agence Française de Développement* (AFD), African Development Bank (AfDB), *Kreditanstalt für Wiederaufbau* (KFW), EBRD) with most funds directed at infrastructure and private sector development. Shortcomings remained, such as: (i) a broad-based framework and lack of clarity on risk-appetite, have allowed DFIs to propose investment programs that have suited their own risk appetite. The absence of a strong EC policy steer has meant that DFIs have not been incentivised to take on more risk; (ii) heavy administrative burdens have hindered access to funds, with slow and complex application approvals coupled with the EC's lack of capacity and skills in judging the transformative potential of investments proposed.

The NDICI-Global Europe, launched in 2021, marked an historic change. It simplified the external investment framework under EFSD+ and expanded the geographic and financial scope of EFSD up to EUR 53.4 billion. Some key novelties are: (i) the policy first principle, shifting focus on policy objectives (rather than instruments) and the use of more EU budget guarantees subject to the programming process; (ii) joint programming as preferred approach; (iii) emphasis on open architecture and equal access to EU funding instruments. However, the EIB remains the 'natural' partner, with 3 dedicated windows worth EUR 26.7 million overall, having both an exclusive mandate (engaging on own terms), as well as access to the open architecture (engaging as competitor). Moreover, the EFSD+ Strategic Board (composed by EC, the High Representative of the Union for Foreign Affairs and Security Policy, Member States and EIB) excludes other IFIs from strategic orientation, defying the open architecture principle.

Team Europe, the operational approach of NDICI-Global Europe initially launched for the EU response to COVID-19, is now the norm with over 150 initiatives (notably, ¼ focusing on climate and ¼ on human development). It represents a promising process in enabling cooperation and increasing EU visibility, but suffers from a lack of transparency (*inter alia* regarding intervention costs, financial instruments, division of labour, extent to which investment are jointly owned by partner countries).

Looking at the EFAD process, in 2019 the Wise Persons Group (WPG) explored 3 options to set up a European Climate and Sustainable Development Bank (ECSDB): (i) turning the EBRD into ECSDB, an option leveraging their strong development expertise, but requiring a re-balancing of private/public investments and increasing the geographical presence. It was eventually rejected *inter alia* due to insufficient EU shareholding; (ii) instituting the ECSDB as a new EU body without institutional path dependencies, which though would be too costly and time consuming; (iii) creating a dedicated EIB subsidiary branch, meaning the EIB would have to become a development bank and be willing to take on more risk and increase country presence. A subsequent feasibility study (not public) requested by the Council and carried out on behalf of the Commission assessed these options, including the Status Quo+ option that was eventually endorsed by the Council in 2021. It entails an enhancement of the current institutional framework, deemed to be more cost-effective, enabling immediate action by requiring limited re-organisation of the system, already offering a range of strengths, instruments, sectorial and country expertise. On the contrary, Status Quo+ does not entail the transformational change needed to create an impactful system; it requires a level of unity of command incompatible with the high number of players within the EC, as well as a heavy bureaucracy with lack of institutional flexibility. Moreover, to compete on the global stage the EU would need an institution able to measure up to the World Bank, and the SQ+ does not solve previously outlined challenges. Ms Gavas thus highlighted 3 possible alternative scenarios:

1. ECSDB as dedicated bank with a dual mandate serving both Sustainable Development Goals (SDGs) and EU interests. This would require a complete system overhaul.
2. Delineating and formalising division of labour between existing banks. Sub-Saharan Africa (SSA) could become a test case for this set-up, with EIB focusing on the public sector and EBRD on the private sector. This does not address how banks interact with existing institutions and entails a significant risk of the two banks replicating or changing each other's business models.

3. EC as ringmaster in a central controlling role, able to select the most suitable partner, align policy conditionality, oversee the application of policy guidelines, secure high standards and sound development baking and harmonise reporting processes. Issues would remain as regards the number of EC players, excessive administrative procedures and lack of capacities.

To conclude, the COVID-19 crisis, the significant SDG gap and the ever-increasing complexity of interdependent transboundary challenges demand an extraordinary response from all European DFIs. Ms Gavas noted all have key roles to play, but critical issues remain:

1. EFAD actors need to be able to take on more risks and accept sub-market returns to lead investors back to markets after the crisis.
2. Complementary of EIB and EBRD activities needs reinforcing, with each focussing on leveraging its own skills set without straining from core competences. The inevitable overlap in the margins could be managed through mutual reliance initiatives to avoid duplication in project co-financing and reduce the burden on clients.
3. Strong steer is needed from the EC in selecting the most suitable implementation partners relying on the open architecture and policy first principle. EFSD+ can also be harnessed to incentivise DFIs to take up projects with higher degrees of risk and innovation, though the Commission needs to help develop the supply of projects as well as support project preparation.

The EP has a key role in calling for greater development impact, by asking crucial questions to the actors involved: are they aligning with effective development principles? Are they reaching underserved population and thematic sectors? Is the EC incentivising DFIs to take up more risk? Is the EC increasing capacities and expertise, harmonising procedures? Is Team Europe delivering results with ownership for partner countries at the forefront?

The first stakeholder contribution was from **Mr Anttii Karhunen,** presenting the position of the **European Commission – DG INTPA**. He noted that, while improvements are surely needed, the EU has institutions with complementary and longstanding expertise both in the public and private sector. The way forward lies in applying the Team Europe approach, already proven to deliver successful results, focusing on joint priorities that can bring transformative rather than revolutionary change. The EC is committed to improving EFAD's current state to maximise its impact and is currently finalising an EFAD roadmap (soon to be adopted) based on the previous Council conclusions and results of the feasibility study. The roadmap proposes concrete action under 4 areas:

1. Strong EU policy steer to reinforce coherence with EU external policy objectives, for example via the publication of programming documents to ensure all actors are aware of which country priorities are to be supported. Moreover, flagship and Team Europe Initiatives (TEIs) under EFSD+ addressing key regional and country policy priorities will be prioritised.
2. Enhanced coordination for greater efficiency and transformative impact. At local and regional level, the role of EU delegations will be strengthened to facilitate discussion with actors on the ground. They will also be included in meetings reviewing DFIs' work.
3. More inclusive architecture, including small and medium sized partners.
4. Increasing Team Europe's visibility and influence.

A number of positive developments took place in 2021: (i) an increase in financial firepower with EFSD+; (ii) the creation of a new EIB Global development branch, with the EC's support, leading to an upgraded EIB operational model with stronger impact and policy steer (iii) signature by EBRD and EDFI of a Memorandum of Understanding (MoU) to intensify cooperation; (iv) Enhanced Partnership members launching a Team Europe finance platform to work on common procedures and common project; (v) EIB and EBRD concluding a framework cooperation agreement on joint financing programmes.

The EU thus has all the elements needed: (i) clear priorities; (ii) strategic objectives; and (iii) an upgraded legal framework with blunt levels of funding coupled with a broad range of institution ready to invest. Moving forward the EC will continue to work on improving coordination, transparency and visibility. Improvements will require all actors to work together as Team Europe and the EC expressed the willingness to work closely with the EP moving forward.

Michele Cervone, from the **European External Action Service** begun by focussing on the EFAD process, highlighting changes in how aid is conceived. The new geopolitical Commission faces heightened competition and has started to shift how the EU projects itself in third countries applying a pure value-driven approach beyond NDICI-Global Europe and the Status Quo+ option. The broader political context is to be taken into account, particularly as the Council conclusions really highlight collective engagement via Team Europe, with banks just a part of the bigger picture, complemented by the recent Global Gateway initiative. The debate on the ECSDB is now considered to be overcome by events.

With regard to policy first in action, there are many examples of existing test cases for the new EFAD setup: (i) the Southern Neighbourhood, where jobs are the main priority and thus a job-focussed TEI investment was set up (making also a side-reference to importance of EU's investments in light of the EU-African Union cooperation and the upcoming summit); (ii) EBRD's work on Ukraine's reform architecture, closely linked with EEAS' technical assistance and Member States' efforts; (iii) Chile, where EEAS is working closely with KfW and EIB on green hydrogen, a key EC priority; (iv) Indonesia, with a EUR 20 million NDICI-Global Europe programme, where forestry and COP are the main priority. The debate overall is too focussed on development impact, but in these cases, the EU's offer is political and can only come through EFAD, evaluating what joint effort can be undertaken and by who.

Looking at the institutional context, the EEAS has now a co-steering role with the Commission. In line with the Council Conclusions, EEAS is trying to translate this at the local level, e.g. via regional seminars with EU delegations. Indeed, ambassadors together with heads of mission have an important role in translating programming at local level in the field. The EEAS supports the setup of an EIB regional office in Nairobi, as it is joint EU know-how projected to third countries that can make a real difference.

Moving forward, the geopolitical dialogues on NDICI-Global Europe between the EP and the Commissioners provide an opportunity to discuss Team Europe and EFAD in their post-programming phase with concrete examples to show that things are working[2]. Moreover, the EEAS is aware of TEIs' lack of transparency, mainly stemming from problems in having Member States provide figures, followed by assurances that more information would become available.

Mr Jeroen Kwakkenbos, representing **CONCORD,** noted how in 2019 EFAD's WPG outcomes seemed very unlikely due to political and financial pressures, particularly the creation of a new institution while keeping budget neutrality for the EU and Member States. Overall, one key aspect of the process has been further consolidation and cooperation on EU development finance. There are shortcomings in the current architecture due to the number of actors competing for the same funding and programmes, which is doing more harm than good in crowding out private sector finance. Moreover, considering that the EU is targeting banks with development financing in order to increase private sector involvement, it raises the question of whether resources are being utilised in the best way possible to reach those who need it most. There remains also a serious issue of risk appetite. According to Mr Kwakkenbos, development impacts and outcomes are key in terms of institutional preference as implementing partner, which are evaluated on the

[2] It was later noted by a journalist representingDEVEX during the debate that transparency and public scrutiny pose issues as the geopolitical dialogues are not open to the public.

basis of having compelling theories of change, clear development indicators and definition of ultimate beneficiaries. If these criteria are satisfied, it does not ultimately matter who is operating and under which basis.

Open architecture and the freedom for the EU to choose the best partner for each task at hand is fully supported, as not all DFIs have the same strengths, but problems can arise in case of 'mission creep'. With the proliferation of development banks, there should be clarity on tasks and core skills. There should not be undercutting or project poaching between EIB and EBRD, as EU Member States are on both boards and contribute to both their financing. Complementarity, cooperation and coordination are key to ensure value for money and the best development results.

The NDICI-Global Europe regulation sufficiently references projects that comply with sustainable development principles, create jobs and support the achievement of the Paris Agreements, and this should steer programs in the right direction. As some projects have not been transparent, the EP and national parliaments should increase funding scrutiny to ensure effective use of taxpayers' money and better development outcomes.

3.2 Debate

The debate verted around a number of questions, coming from MEPs and the press, here grouped thematically.

- **The steering role and capacities of the European Commission**

Participants enquired about: the Commission's steering capacity in a multi-actor environment and how to improve this in practice (MEP Udo Bullmann, S&D Group); EC's capability problem, considering the huge jump in the use of budgetary guarantees in EFSD+ (Ms Gavas); potential increases in EC staffing to make up for lack of capabilities (Mr Chadwick, Devex); the division of tasks and responsibilities between the EC and the EEAS (MEP Goerens, echoed by Ms Gavas); the degree of autonomy of other EFAD actors (MEP Goerens).

As explained by Mr Karhunen (EC, DG INTPA), the EC (jointly with EEAS) already sets out key priorities through a planning exercise. Moreover, new TEIs provide additional concrete elements of steering capacities and priority setting, *inter alia* via: (i) the prioritisation of TEIs and proposals aligning with set priorities in open architecture calls; (ii) the EFSD+ governance mechanisms, steering and operational board; (iii) ex-post monitoring and steering to ensure that EU budgetary guarantees are going where intended. Although such guarantees are much higher under EFSD+ (compared to its predecessor), the funding will be broken down in volumes similar to the previous EIB's External Lending Mandate's (ELM) system. The biggest increase will be with open architecture and private sector opportunities, which will though be dealt with in several batches. The EC may hire more staff, but is mainly engaging intensively with training, both at delegations' and HQ levels.

Linked with the discussion about the role of the EC, MEP Goerens raised important questions on the scope of action for EBRD, EIB and financial institutions, pointing at the connection between policy first principle and action in the field. It is not fully clear who takes decisions and what margins of autonomy each actor retains, and whether a vertical responsibility and authority structure is in place.

The EEAS highlighted how Team Europe is very much a collaborative joint process, with the EC in the lead and a number of steering mechanisms in place.

- **EIB and EBRD's division of tasks**

MEP Goerens pointed to the lack of clarity as to how the EIB and EBRD are going to concentrate on core business or work together on common projects. For example, with common projects it would be beneficial for each to make an independent evaluation of risk, in order to provide a better general overview.

Complementarity is as important as the division of labour on which each bank will concentrate its core business.

Considering funding comes in many different forms (e.g. grants, loans, blended finance), what is feasible for a bank in practice should also be clarified. For example, referring to programmes with no guarantee of returns such as social and health programmes, MEP Goerens raised the question of how a bank can justify investments to its shareholders, and asked whether the EC and EEAS had come up with a clear distinction between grants and the use of 'financial engineering' to access private capital, including a clear definition of what the EC and Member States will give in terms if grants as well as in which specific sectors.

- **Competition among banks and/or DFIs**

Responding to a question from Mr Chadwick, panellists agreed that competition can be good – leading to better project quality – or bad – due to undercutting. On the one hand, Ms Gavas highlights how undercutting distorts markets and reduces project bankability. Mr Kwakkenbos reflected on how institutions rarely compete for a project because it has better development outcomes – which would be a good kind of competition. Risk adversity remains very high with both banks and institutions, as project failure is not only harmful from a financial perspective but is also embarrassing from a political perspective. The system is thus geared towards successful project and 'guaranteed winners'. On the other hand, Mr Karhunen highlights that competition with inclusiveness is beneficial, as it can increase project quality. Collaboration and joint efforts are key to achieving Team Europe and a unified EU voice. Mr Cervone highlighted one area to develop in trying to provide incentives, particularly to smaller European DFIs: the development of consortia. With EIB and EBRD there is some competition, but the key issue remains understanding which actor provides real value added (also beyond DFIs).

- **EFSD+ Steering committee**

Mr Karhunen, answering a query from Mr Chadwick, highlighted how the Commission was supportive of EBRD joining the steering committee as permanent observer (in addition to such right already enjoyed by the EIB), though the option was opposed by Member States, which preferred to keep it on an *ad hoc* basis.

- **Achieving bigger visibility and supporting the private sector in Africa**

Is the current situation suited to achieve the goal of being more visible, stronger and supporting the private sector in Africa? MEP Hildegard Bentele (European People's Party group) asked about the suitability of the current system, as opposed to one with better coordination in leveraging investments in the private sector to their full potential. In this regard, according to Mr Karhunen the EC is very much growing with open architecture to crowd in the private sector, which is crucial to get on board. The EU will have a big opportunity to spark their interested when looking at current challenges, such as climate change or connectivity issues.

- **Lack of transparency and democratic scrutiny**

Although Ms Gavas welcomed the EC's decision of publishing their programming documents, many obstacles remain in accessing relevant documentation throughout the EFAD process, with key information not being open to the public – e.g. the feasibility study and the EBRD-EIB cooperation agreement – and thus hindering institutional accountability. Mr Karhunen agreed on the importance of transparency, pointing at the EC's annual reports and their openness to providing information to the EP during the geopolitical dialogues (the latter however remain closed to public as noted by one external participant).

- **Prioritising development impact**

Replying to the EEAS remark about the geopolitical context of development aid, as well as a question about lessons learned from EFSD's implementation in the period 2017-2020 and its relatively small use in the least developed countries (Mr Chadwick), Ms Gavas highlighted the importance staying focussed on development impacts, on avoiding ‘unhealthy’ competition between DFIs, and addressing previous shortfalls in dealing with the EFSD 2017-2020, in particular when coping with the huge jump to EUR 53 billion in guarantees under EFSD +. It is of mutual interest for the EU and its partner countries to ensure that assistance is having an impact in order to be able to achieve the SDGs. Mr Cervone assured that SDGs remain at the core of the EEAS’ work.

Mr Kwakkenbos, pointed at EFSD+’s purpose of moving towards greater risk and resource differentiation with the intention of producing better development outcomes. This also means the EC needs to be ready to suffer losses, as higher risk implies a higher probability of failure. It will thus be important to see to what degrees the EU is willing to tilt the scale towards development outcomes. Moreover, it is important to monitor whether actors are working with those who need resources the most. Smaller interventions can have local impact, rather than larger ones, where perhaps there already is more financing and thus additional contributions are not as significant. Along similar lines, MEP Goerens noted the importance of links with local banks in Africa in order to get in touch with people the EU want to assist, as not all stakeholders will refer to the new EIB office in Nairobi. He questioned which agencies will be in touch with these banks and how such non-European actors link to EFAD.

4 Panel 2 – What roles for the EIB, EBRD and Member States' DFIs?

Panel 2 included an expert presentation from Dr Aitor Perez (Ecoper - author of the related Briefing) and stakeholder contributions from the EIB, the EBRD, as well as representatives of Association of bilateral European Development Finance Institutions (EDFI) and the Enhanced Partnership Group.

4.1 Presentation by academic expert and stakeholders' contributions

In order to analyse the individual roles of main EFAD actors, **Dr Perez** takes an historical perspective, focusing the analysis in recent years and framing it in the Team Europe context to understand whether a new institutional setting has been set up.

The EIB has focused mainly on intra-EU cohesion investments, while also being active in development policy (e.g. in the Africa-Caribbean-Pacific region) since the 1970s. The bank's very broad scope has made EIB's development planning limited to some geographical and thematic targets. Conversely, the EBRD has had a narrower focus, developing strong field expertise in private sector investment (including technical assistance and policy dialogues). At national level, Member States' DFIs form a heterogeneous network of public entities and funds, with two Member States (France with AFD and Germany with KfW) standing out as relying mainly on reimbursable aid and having developed agencies similar to multilateral development banks in terms of central capacities and presence in the field.

The development financing gap, estimated at EUR 2.5 trillion per year, was the ultimate motive behind the EFAD revision process, trying to up EU institutions' contributions. Dr Perez noted how, within the European landscape, notably the EBRD has developed a similar level of operations to EIB without having the same level of EU budgetary support. AFD and KfW lead the pack with volumes over EUR 12 billion each. Remarkably, EDFI members (although smaller entities) altogether reach similar levels as EBRD and EIB. From a development and an EU leadership perspective, it though must be noted that only EIB can directly be associated with the Union and as such, to face competition in regions like SSA, it would need to triple its volumes of operations. The issue may now be overcome by the Team Europe approach, which created an opportunity to pull figures together and allowed the EU to present a global response to COVID-19.

In investigating the capacities of EFAD members to respond to certain targets, specific topics and regions feature prominently on the agenda. In Dr Perez's eyes, here is where development becomes political, as by driving resources to a specific topic the beneficiary country's focus is also shifted, influencing its policies. Moreover, with the EU increasing its importance *vis-à-vis* other players, it may be introducing different values and priorities, as well as advancing different interests.

EIP figures from 2018-2020 provide insight on a potential division of labour among EFAD players: EBRD has strong expertise in private sector development, while EIB remains the major provider for EFSD blending projects initiatives, with strong expertise in climate financing. Geographically, the share of resources allocated to private sector development in SSA remained low. Although overall private sector blending finance represented 23 % of operations, in SSA this share stopped at 6 %, with projects mostly implemented by the AfDB, a non-EU actor. More private sector development could have supported job creation, one of the EIP's priorities.

Team Europe initiatives go beyond guarantees and blended projects, being very successful in terms of DFIs' participation. However, the involvement of entities in national and regional TEIs remains rather imbalanced, with some Member States completely missing. Moving forward, Team Europe provides political momentum, rather than a new architecture. In fact, no major institutional changes have resulted from the analyses and debates triggered by the WPG report. The report still puts pressure on certain weaknesses, such as EFAD's fragmentation and the EIB's business model not fitting the need of EU institutions to drive resources on specific targets. At the same time, the process took place in parallel to the COVID-19 crisis, the launch of the geopolitical Commission, successful completion of the EIP through open architecture and the entry into force of the new Multiannual Financial Framework (MFF) and the NDICI-Global Europe Regulation. The new MFF already brought with significant improvements, building up on lessons learned from EU development policy fragmentation in previous programming cycles. Donor coordination is in fact not a new debate, though now intensified regarding development banks and DFIs; cooperation agencies have been reviewing performance from this perspective for decades, and DEVE has also pushed forward several debates in this respect.

Within the perspective of a new development architecture gaining political momentum in the COVID-19 response, the role of each institution should evolve, argued Dr Perez. The EIB, though being reaffirmed as 'the EU development bank' with global scope, needs to gain the capacity to drive financing towards more specific geographic and thematic targets (in line with joint programming). Thus, it is expected to engage more actively in development planning, monitoring and evaluation at country level, working closely with EU delegations. At the same time, this does not prevent the Member States and EU institutions from proposing an expansion of EBRD operations in countries where its expertise is more needed. Unlike grants, loans are managed in financial markets, where competition is positive. This is not as straightforward with EU budget resources, as they fuel competition which is not producing any added value in terms of development impact. Nevertheless, two banks can co-exist operating in the same countries, as the development challenge is broad enough to leave room for multiple actors. There could be ex-ante division of work, although even when targeting similar sectors it is possible that both banks are needed. In particular, in business sector development in SSA, EDFIs contribution is important. Figures show that they were not so successful in providing proposals to the European Commission, and seemed to suffer from a lack of project supply. This calls for the relationship to be reviewed, leaving space for EDFIs to be heard as regards steps needed to facilitate their work in preparing and supporting bankable SDG projects in SSA.

The EC should also assess its relationship with the AfDB, as it was the most successful institution in supporting the formal economy, job creation and business development in the continent. The AfDB is a regional bank with limited capacity (compared to other regional banks) and, based on an evaluation of collaboration in the previous EIP, may deserve further EU support. Finally, the role of the EP is to lead this critical juncture / political momentum to a longer-term trajectory in terms of European Union development policy integration. To begin with, the EP should request that the EC together with the Member States draw up an annual Team Europe report. As it entails use of EU budget, it should be taken as an opportunity to jointly present development financing figures and estimations of resources that have been leveraged. The report could also look at how funding is meeting certain targets and used for reviewing the assessment of development impact. It should cover issues of harmonisation, integration, EU added value (*vis-à-vis* Member States) and application of the subsidiarity principle to TEIs. Beside this supervisory role, from a legislative perspective DEVE should also look at improving the fragmented regulatory framework, which differs across Member States, assessing whether legislation at EU level may improve cooperation.

Mr Markus Berndt (European Investment Bank), started with emphasizing how there is no trade-off between the SDGs and pursuing EU's political priorities. As an outcome of the EFAD process, EIB established its Global branch dedicated to non-EU operations. This will not make it a dominant player, as there are langer banks within the EU with higher budgetary capacities, as the AFD and KfW, but clarifies where EIB needs to step in to complement the system. It also clarifies EIB's expectations on EU actions needed, avenues for reliance on national banks and entry points for concerted EU efforts influencing the multilateral development agenda. The way for the EU to have an impact is by acting together, via Team Europe. The EIB fully aligns with EU strategic priorities, and also applies EU standards. It was in fact the first bank to align with the Paris Agreements and begin issuing green bonds in 2016.

The EIB provides assets allowing the EU to compete on equal footing with the World Bank, such as strong expertise on health, climate, digital and green transition. As other banks operating outside its membership, EIB relies on continuous EU budget support, which translated into the dedicated mandates within EFSD+, allowing the continuation of its extra-EU operations (around EUR 10 billion). Half of this activity entails private sector cooperation, with a significant amount taking place in Africa and in fragile states. EIB Global enables the bank to address some of the limitations identified, such as the capital limitation. EIB is already present on the ground in 30 counties outside the EU, usually co-located with the EU delegation, enhancing cooperation with the EEAS and the EC. The Nairobi hub is a step forward in expanding local EIB presence to support EU policy dialogues. Complementarity with regional and national banks as well as at United Nations (UN) level, together with a closer and direct dialogue with stakeholders, is crucial to mainge sure that EU resources are used in pursuit of EU objectives and to maximising development impact.

Carlos San Basilio (European Bank for Reconstruction and Development) echoed previous speakers in praising the EFAD as a strong response to current development challenges, together with the MFF and new budgetary instruments (e.g. EFSD+, open architecture) creating a new framework for EU development assistance. Higher levels of funds are ensured, as well as a clear indication of direction with policy first and strong incentives for institutions to work together as Team Europe.

EBRD can be a strong ally in delivering the EU development agenda, as also highlighted in the EFAD evaluation, via: (i) strong development credentials with a strong presence on the ground (1/3 of EBRD's workforce with 50 offices in countries of operation), providing a counterparty for the local players with capacity to deliver locally; (ii) a long tradition in measuring impact in terms of development and transition; (iii) capacity to engage with authorities upstream and with the private sector. In fact, promoting the private sector in development financing is increasingly becoming a crucial issue where EBRD can represent a key partner for the EU. Having the EU as a majority shareholder aligns EBRD values and strategies with EU institutions. In fact, EBRD's top strategic lines are: climate, gender and inclusion, digital transition.

Moving forward, EBRD is ready to actively contribute to making sure EFAD delivers on time, noting however than improvements can still be made. For example, it has already: (i) increased cooperation with EDFI, EIB and AfDB; (ii) changed its internal organisation to better deliver on measuring impact in terms of development; (iii) increased its capacity to mobilise private sector funds needed to close the SDG financial gap; and (iv) moved forward with SSA expansion.

Soren Andreasen presented the view of **the Association of European Development Finance Institutions (EDFI)**, supporting the SQ+ approach building on longstanding and fruitful collaboration between Member States' institutions in the group as well as with EIB, EBRD and other national development banks in Europe. EDFI's institutions are increasingly pressured to do more and mobilise higher volumes to reach the global goals, and there is particular urgency on European DFIs to accelerate efforts and tackle challenges in least developed countries as well as to make significant steps with regard to climate action. In EDFI's experience, collaboration has been indispensable to scale up activities and achieve impact. EDFI institutions are highly networked, with 50 % of investments gathering more than two Members, as co-financing and risk sharing can be crucial to achieve higher and better results, based on harmonised impact measurements approach. Partnerships already exist and are now being extended, for example (i) with the Commission, where EDFI members manage ca. EUR 1 billion in funds and guarantees (individually or through a shared platform); (ii) with the EIB as the EU financing partners and in the anti-climate change facility; and (iii) with EBRD through the recent MoU.

To conclude, three crucial elements are needed for a successful architecture:

1. *Clear complementarities,* also in terms of risk models and synergies. It is key that costly duplication is avoided and scarce resources are not wasted. For example, EBRD's model has made an important contribution in the Neighbourhood through policy dialogue and reform which can be replicated.

With EIB Global, many of EIB's strengths can be brought to bear also in partner countries. As for EDFIs, 50 % of their private sector financing is directed outside the EU (80 % in SSA) and they have high financial risk tolerance and strong focus, allowing to make significant contributions in partner countries. In 2021 they set a record financing in Africa for small and medium enterprises and women economic empowerment, with investment overall supporting more than 10 million jobs.

2. *A level playing field* where all institutions have access and voice in decision making, e.g. EFSD+ strategic board and other strategic venues, where EDFI is willing to engage, also with EIB and EBRD.
3. *A stronger EU policy steer.* As Member States' institutions, EDFIs have a strong record of upholding environmental and social standards as well as implementing EU policy standards and requirements, taking the lead in developing principles to prevent the private sector from crowding out (e.g. blended finance, market benchmarking). Overall, EDFIs are ideal instruments for EU to implement development policy objectives and a stronger steer would help them make a greater contribution to Team Europe.

Christian Krämer briefly introduced the **Enhanced Partnership Group** (representing AFD, KfW, *Cassa Depositi e prestiti* (CDP) and *Agencia Española de Cooperación Internacional para el Desarrollo* (AECID)), formed by EU bilateral development financial institutions, mainly supporting programs and projects involving public sector in developing and emerging economies. After five years since its establishment in 2016, in 2021 it had an aggregated commitment volume of EUR 18 billion, taking up 35 % of DG INTPA and DG NEAR blending funds, as well as 30 % of EFSD+ guarantees' implementation. The Enhanced Partnership has strong presence on the ground with more than 200 local offices in 85 countries and a longstanding strategic and operational cooperation with all EFAD players.

It is key that the EU builds on its pluralistic landscape, relying on the knowhow, experience and financing power of all European DFIs, and that all can directly access EU funding and contribute to reaching EU development policy goals on the ground. This is reflected in the Council conclusions with a clear commitment to open architecture, where keeping and improving the level playing field can increase results. Moreover, extending the volume and geographical scope of EFSD+ guarantees under NDICI-Global Europe is an important step to mobilise the financing needed to achieve the SDGs and crowd in private investments. Enhanced Partnership institutions expect a strong demand for projects from the EC.

Team Europe approach is another important element and will help increase the EU's efficiency and visibility. Enhanced Partnership members are fostering cooperative efforts with other EFAD actors as well as within, with AFD and KfW estimating a record co-finance volume of EUR 1.6 billion in 2021. A co-financing platform is currently under development together with CDP and AECID, based on mutual reliance and aiming at identifying concrete opportunities, linking financial and technical cooperation as well as contributing to greater EU visibility, values and standards. The platform will increase efficiency for local partners, with its first pilot projects potentially to be selected as early as 2022. To conclude, the Enhanced Partnership commended the Global Gateway initiative for its potential to contribute to the role and visibility of the EU in partner countries, and recommended to further increase EFSD+ guarantees volume and involve all European partners.

4.2 Debate

The time allowed for no extensive debate. A question from the audience addressed the transparency aspects of the EFAD process, namely public access to the feasibility study, whereby the EBRD promised to come back to the issue. MEP Goerens closed the workshop by thanking all participants for a very stimulating debate, and concluded by focussing on one overarching question: **how much money is needed to achieve the SDG objectives?** With existing estimates pointing at USD 2.3 trillion, he highlighted the importance of understanding where the funding comes from in practice: ODA, recipient countries and – a big part – from developed countries, as SDGs are globally accepted at UN level.

Considering global GDP is estimated to increase by ca. 100 thousand billion in 2021, the financing required represents around 2.3 % of global GDP. It should be possible to mobilise this amount through public or private channels, and it is important to have clarity about all the elements that can be put to this use. MEP Goerens suggested that DEVE asks all stakeholders involved to agree on such matters, so that all are working with and towards the same figures.

Annex – Experts' bios

Mikaela Gavas is Co-Director of Development Cooperation in Europe and Senior Policy Fellow at the Center for Global Development (CGD). In addition, she serves as a member of the Standing Advisory Group on Technical Assistance and Cooperation for the UN International Atomic Energy Agency. She was a Specialist Adviser to the UK House of Commons International Development Committee from 2018 to 2020. Before joining CGD, she was the Head of the Overseas Development Institute's Development Strategy and Finance programme.

Dr Aitor Perez is Chief Consultant at Ecoper. He has over 20 years of experience in development cooperation, including more than ten as a researcher and external evaluator. As an evaluator, he has worked for UNCTAD, UNESCO and ILO, as well as EU Institutions and several international NGOs. He has conducted over thirty evaluations in more than forty countries on topics such as education, economic development, governance, culture, humanitarian aid and livelihoods. As a researcher, Aitor has over ten years of experience in the role of research fellow in the think tanks FRIDE and the Elcano Royal Institute, conducting development policy analyses with a focus on development finance, private sector development and the politics of aid. He is currently participating in the design and launch of the Cosmopolitan Observatory at the UNED, the Spanish open university. He also collaborates with T20, the G20 think tank network. He has published research in Third World Quarterly, the Journal of Contemporary European Research, the Canadian Journal of Development Studies, Progress in Development Studies and the Routledge book series 'Rethinking Development'.

Antti Karhunen is Director for 'Sustainable Finance, Investment and Jobs; Economy that works for the People' at the Directorate General for International Partnerships (DG INTPA) of the European Commission. During his over 25 years of service in the Commission Antti has worked on many EU policy areas. Before his current assignment, Antti served in INTPA senior management as Principal Adviser, focusing on trade and the Green Deal. He was also, for several years, Head of Unit steering EU policy on the role of the private sector and trade in development, in which role he helped design investment-related work of the DG. Antti has strong experience in managing highly qualified teams and important financial resources, with focus on economic policies related to international partnerships. Antti has served as Advisor and Deputy Head of Cabinet of the Commissioner for Development, Andris Piebalgs, and as Member of Cabinet during the two terms of Erkki Liikanen, Commissioner for Enterprise and Information Society, and Commissioner for Budget, Personnel and Administration. Antti has many years of experience on enterprise and industrial policy, including as Deputy Head of Unit in DG Enterprise and Industry. He also worked many years on EU-US relations. Lawyer by education, Antti Karhunen worked in Finnish diplomatic service and as a company lawyer in energy industry prior to joining the European Commission.

Michele Cervone d'Urso was appointed Head for Financing Instruments and International Cooperation of the newly transformed European External Action Service (EEAS) in September 2021. Prior to that he was in charge of the Development Cooperation division. Mr Cervone d'Urso leads a team that has the strategic oversight for EEAS over EU international cooperation with third countries managed by the European Commission and the steering of EU development cooperation policy. He has 25 years of experience in international diplomacy, development and peace building for the European Union. Michele Cervone d'Urso joined the EU in 1996 at the Directorate General for Development of the European Commission. Since then, he had served in various capacities, including as EU Ambassador for Saudi Arabia, Bahrain, Kuwait, Oman and Qatar from 2016 to 2020; EU Special Envoy and Ambassador for Somalia and been extensively involved on Somalia's political transition from 2012 to 2016 and for Yemen between 2008 to 2012 as the first European Union Ambassador to Yemen where he was significantly engaged in the political settlement in Yemen. He has held a number of other key positions at European Commission headquarters including covering EU engagement on the Horn of Africa and post-conflict/transition countries and held previous postings in Southern Africa. Michele Cervone d'Urso holds an honours degree in Economics and international relations from St Andrews University and a Master's in the Economics of the European Union from Exeter University. Born in 1970, he is married with two children.

Jeroen Kwakkenbos is the Deputy Head of Oxfam's EU office as well as Oxfam International's Senior Aid Policy and Development Finance Advisor and Interim Debt Policy Lead. He works on EU, Bilateral and Multilateral development finance. Jeroen specialises in quality and quantity issues related to Official Development Assistance and mobilising private finance with public development resources. Before joining Oxfam Jeroen worked as a Policy and Advocacy Manager for the European Network on Debt and Development (Eurodad), leading the networks workstreams on aid and development finance. In addition to his regular duties Jeroen has coordinated the EuroIFI network, a loose network of European CSO groups monitoring and engaging with the International Financial Institutions (IFIs,) was a member of the management committee of Reality of Aid, a southern led CSO network focused on reforming development aid policy and practices and served as a co-chair for Concords Aidwatch group.

Dr Markus Berndt is the Acting Managing Director and Deputy Director General of the EIB's new branch for external activity, EIB Global, heading its operations. Prior to taking up his current position, Dr Berndt was leading the EIB's Group Strategy Department and held managerial positions in the Operations Directorate and the Economics Department. Before joining the EIB in 2008 as a financial sector expert for operations outside the EU, Dr Berndt held positions at the International Monetary Fund, at the German Federal Ministry for Economic Cooperation and Development, and at the Corporate Finance and Strategy Practice of McKinsey and Company. Dr Berndt acquired his PhD in Economics in 2000 as stipendiary of the international doctorate programme in Law and Economics by the Max-Planck Institute and the University of Hamburg, during which he spent time as an invited research fellow at Harvard University.

Carlos San Basilio is the new Managing Director for Corporate Strategy. Prior to this position, he served as Secretary General of the Treasury and International Financing in the Spanish Ministry of Economy, in charge of financial legislation, government funding and relations with international financial institutions and the EU. Other senior positions held by Carlos in the public sector are Financial Counsellor at the Permanent Representation of Spain to the European Union and Managing director at COFIDES (Spain's public-private venture capital specialist abroad). He also worked in the private sector, at Santander and MTS, a subsidiary of London Stock Exchange Group managing fixed income markets. A graduated in Economy by the Universidad Autonoma de Madrid, Carlos also coursed a Master in Public Administration at the Kennedy School of Government, Harvard.

Søren Peter Andreasen is the General Manager of the Association of European Development Finance Institutions (EDFI) and the Chairman of the EDFI Management Company. EDFI promotes the work of European DFIs based on their shared mandates to promote private sector development in emerging and developing economies and to align private investment flows with the Sustainable Development Goals and the Paris Climate Agreement by informing policy, driving innovation in industry standards, and delivering innovative development finance solutions. Søren is also a member of the G7 Impact Taskforce and the World Economic Forum's Global Future Council on SDG Investment. Before joining EDFI in 2016, Søren worked for 15 years in the consulting industry with a specialisation in development, finance, and investment in emerging markets. Søren holds a master's degree in public policy from Harvard University and an undergraduate degree in political science from Aarhus University. He started his professional career with the United Nations (UN) Secretariat in New York before he joined McKinsey & Company in Copenhagen and subsequently co-founded the consulting firm Dalberg Global Development Advisors.

Christian Krämer – Professional experience: Since 9/2021 Director General Strategy and Latin America, Member of Management Committee at KfW Development Bank; 2020 – 8/2021 Director East and Southeast Asia Department KfW Development Bank; 2017-2020 Director Afghanistan, Pakistan, Iraq KfW Development; 2009 – 2017 Director Management Affairs KfW Group; 2005 – 2009 Team Head KfW-IPEX Energy Finance Department; 2002 – 2005 Projectmanager KfW-IPEX Aircraft Finance Department; 1999 –

2002 Entry Legal Department KfW Group. Education: 1993-1999 law schools in Cologne, Germany and Glasgow, UK; 2015 Wharton School, University of Pennsylvania, USA: Executive Development Program.

Annex – Slides presentation by the two academic experts

The European Financial Architecture for Development: Evolution or Revolution?

Mikaela Gavas

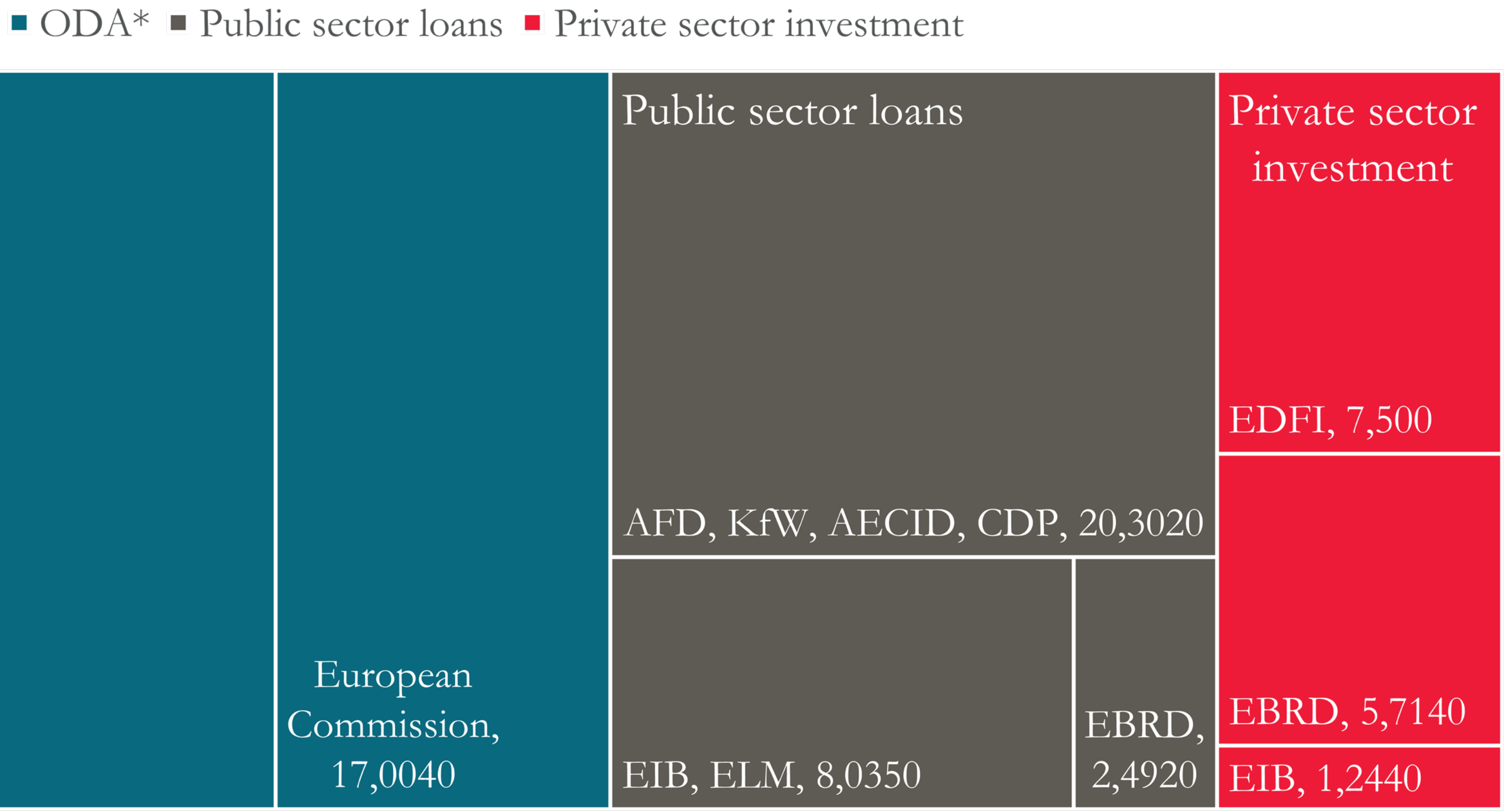
WORKSHOP
for the European Parliament Committee on Development on
The Future of the European Financial Architecture for Development

1. The current European development finance landscape

Europe's multiple and diverse network of actors play a pivotal role in the development finance landscape

Center for Global Development

European development finance landscape, by instrument and institution, 2020, EUR billion



*Bilateral development cooperation assistance in the form of grants, budget support and in-kind donations. Excluding ODA-generating investments from AFD, KfW, AECID, CDP.

Source: CGD analysis based on annual reports from DFIs and donors

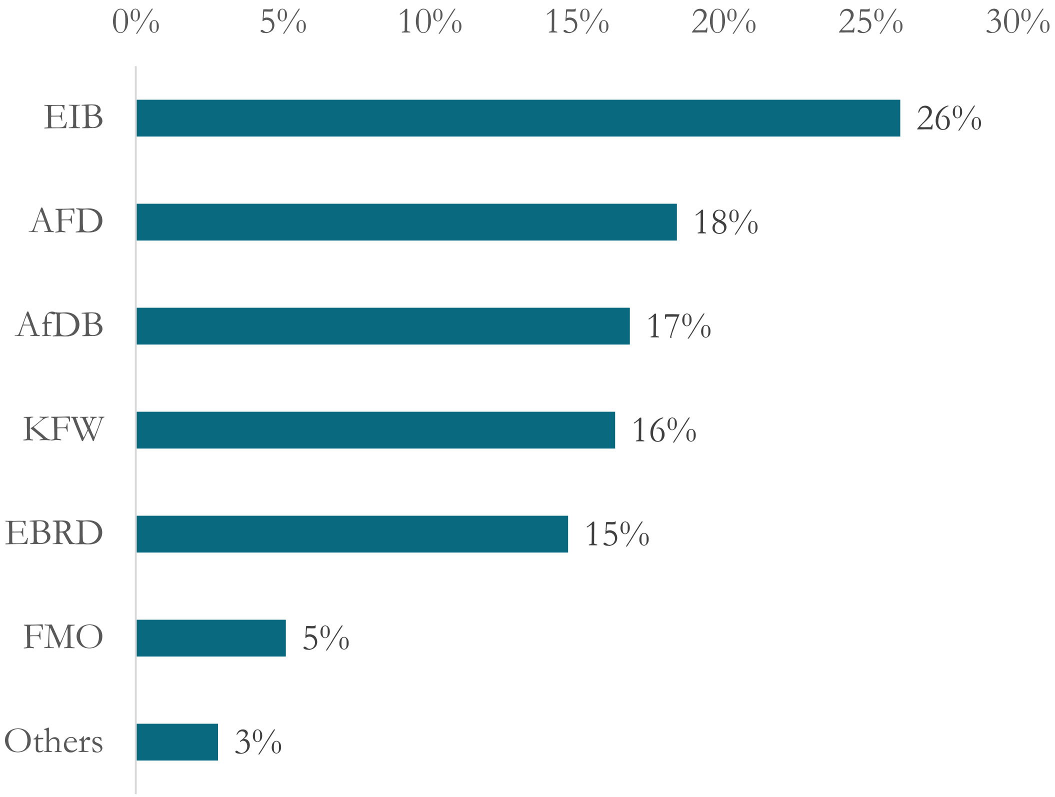
The absence of coordination and a common ruleset result in fragmentation and incoherence

- Competition for visibility and undercutting of investors
- Duplication and incoherent approaches
- Lack of transparency on investment tools
- Different approaches to development impact measurement

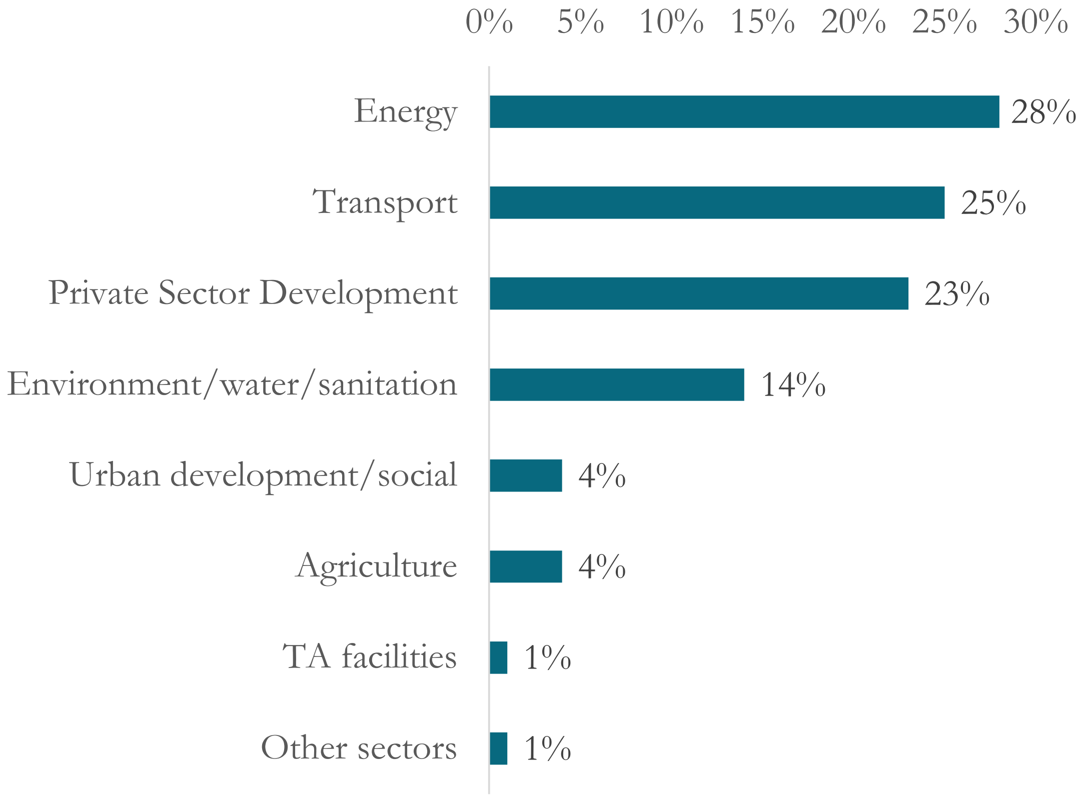
- Leads to market distortion and reduces project bankability
- Places a heavy burden on partner countries
- Challenges scrutiny and public accountability
- Undermines development impact

The EFSD incentivized cooperation but failed to steer the DFIs and favoured those with stronger capacity

Share of EFSD blending projects by implementing partners, 2017-2020



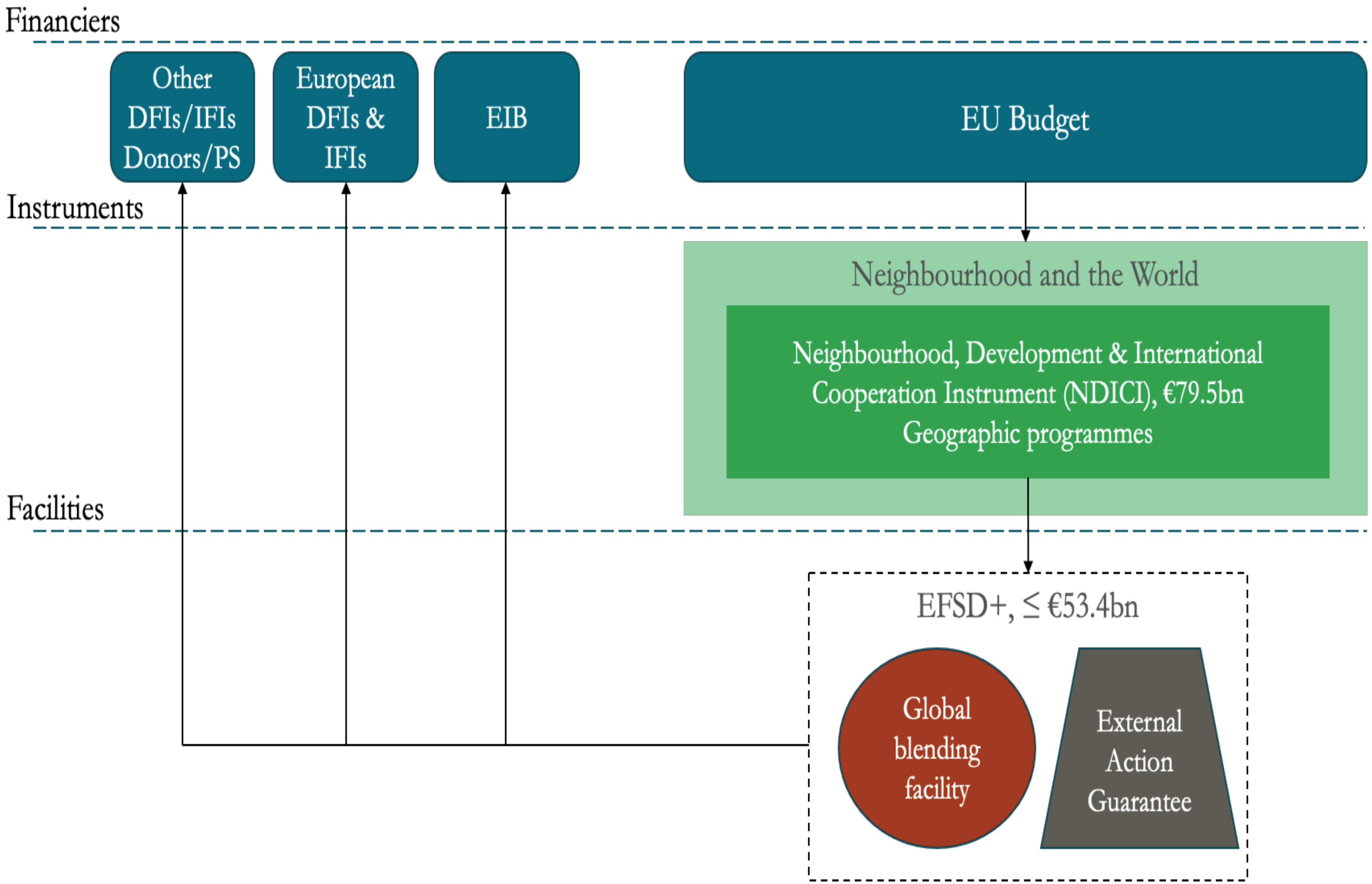
Sectoral distribution of EFSD blending projects, 2017-2020



Source: EFSD Operational Report 2020

The EU has attempted to improve the system by streamlining the architecture and unifying the investment framework

Center for Global Development



Expanded guarantee

"Policy first" principle

Joint programming

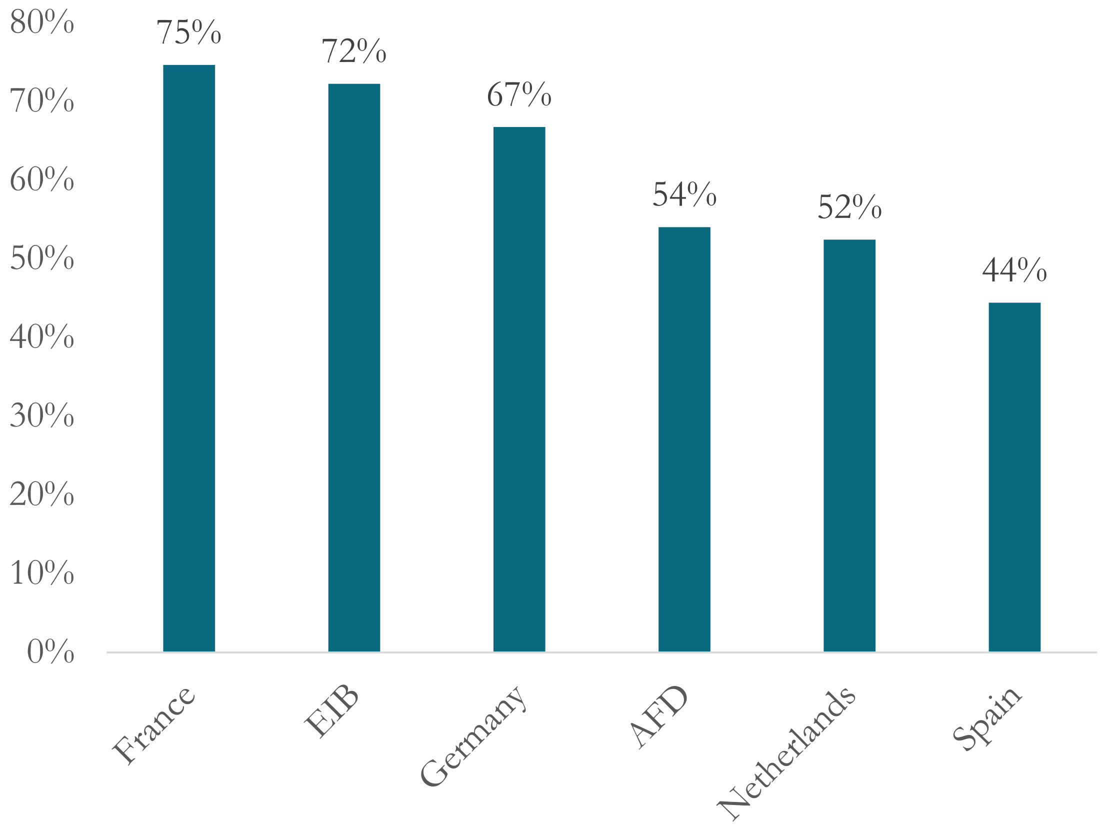
Open architecture

Source: Authors' elaboration based on NDICI Regulation

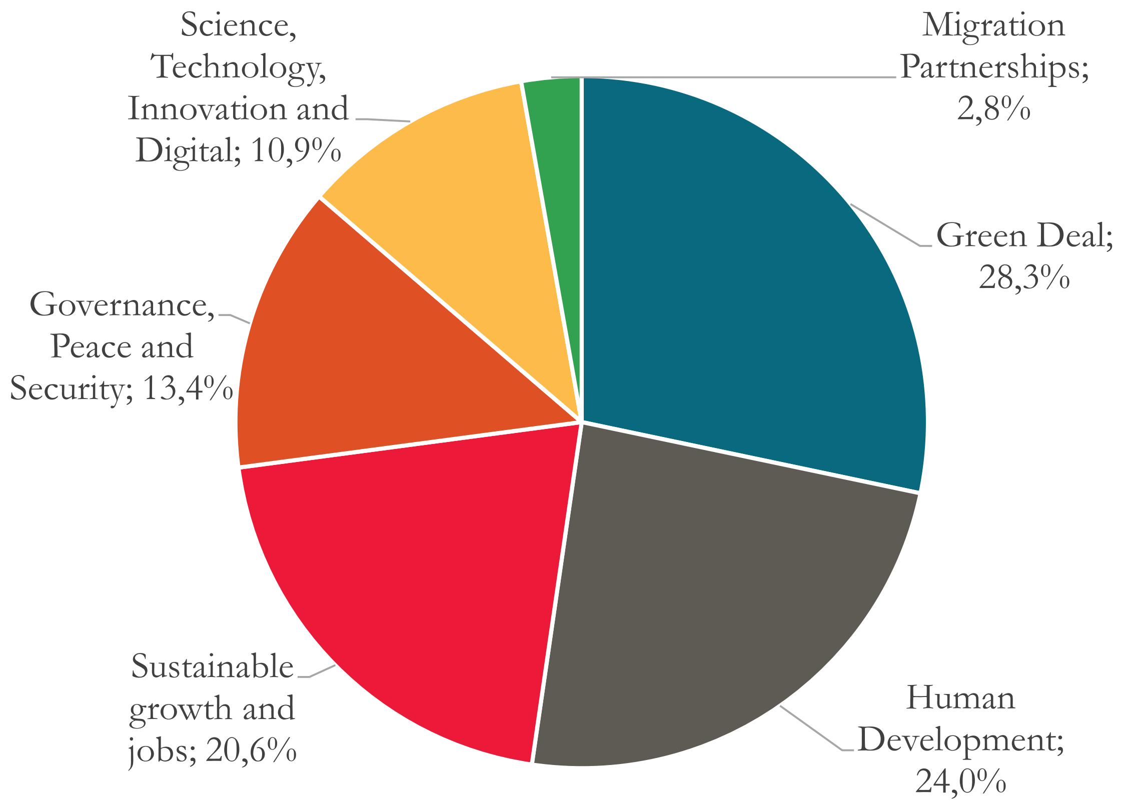
The Team Europe approach has enabled cooperation, a unified approach and visibility, but driven by larger players

Center for Global Development

Share of Team Europe Initiatives by Team Europe member



Sectoral distribution of Team Europe Initiatives



Source: Capacity4Dev– Team Europe Dashboard

2. The EFAD process and possible alternative scenarios

Motivated by the significant SDG financing gap, the EFAD process relaunched a system-wide review of the architecture

Center for Global Development

Camdessus Report (2010) → Meseberg Declaration (2018) → Wieser Report on EFAD (2019) → Council Conclusions on EFAD (2019) → Feasibility Study (2020) → Council Conclusions on EFAD (2021)

Camdessus Report (2010):

EU platform for external cooperation and development

EIB entity for operations outside the EU

Wieser Report on EFAD (2019):

European Climate and Sustainable Development Bank

Strong European Commission policy centre

Council Conclusions on EFAD (2021):

Current institutional set-up with improvements

Status Quo+

Wieser Report: A single, well-capitalised development entity should become the natural EU development finance centre

Center for Global Development

EBRD as the ECSDB	• Subsuming the EIB's external financing activities and building on EBRD's strong development banking expertise • Problem of non-EU shareholding
New mixed-ownership ECSDB	• Newly created EU body not affected by institutional path dependency • Would require substantive time and capital investment
EIB as the ECSDB	• Dedicated EIB subsidiary as proposed by Camdessus Report • Would require a major shift in business and managerial practices, and a different approach to risk-taking

Source:Wieser et. al.

Status Quo+: the existing architecture is built on a multitude of institutions that are already working well together

- ✓ Most cost-effective scenario
- ✓ Requires limited reorganization of European development finance system
- ✓ Current architecture offers a suite of strengths, instruments, sectoral and country expertise.
- ✗ "Business as usual" – not the transformational change needed
- ✗ Requires EU unity of command which is currently lacking
- ✗ Will continue to fuel competition between European DFIs and particularly the EIB and the EBRD

"Maintaining the status quo is not an option for the future"

Center for Global Development

Option		Implications
European Climate & Development Bank	• Dual mandate of serving SDGs and European business interests • Mixed ownership with multiple shareholders • Broad portfolio and large capital base	• Requires complete overhaul • Juggernaut institution that would side-line the DFIs • Significant additional capital outlays under the EU budget
Formal division of labour in sub-Saharan Africa	• EBRD – private sector focused and selective policy-based sovereign/sub-sovereign lending • EIB – larger and public sector projects and more sizable private sector projects	• Excludes interaction with existing financial institutions • Requires alteration/replication of business models, fueling competition and inefficiencies
The European Commission as the "ringmaster"	• EU as unifying central force, leveraging strengths of all members • Harmonised processes and common ruleset • Leading regional and country platforms	• Limited development banking expertise and capacity • No centre of decision-making • Excessively heavy administrative procedures

3. Conclusions and recommendations

Achieving the SDGs/Paris Agr demands an extraordinary response from all of Europe's development institutions

Sustained engagement from all development banks with a more flexible approach to risk and return

Reinforced complementarity of the EIB's and EBRD's business models with greater mutual reliance initiatives

A stronger steer from the European Commission combining 'policy first' with 'open architecture'

The EP can monitor and lend its voice to the call for greater development impact, coherence, coordination and expertise

Center for Global Development

- Are the European Commission and the EIB aligning external finance with effective development principles?
- Are interventions reaching underserved populations, targeting more challenging settings, focusing on underserved thematic sectors?
- Are DFIs being incentivized to invest in high development impact interventions at the riskier end of the spectrum?
- Is the European Commission harmonizing procedures and creating a common ruleset?
- Is the European Commission increasing its capacities and expertise, including in EU delegations?
- Are Team Europe Initiatives delivering results with ownership of partner countries?

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

European Parliament

BRIEFING

A new European financial architecture for development: What roles for the EIB, EBRD and member states' DFIs?

Aitor Pérez

Economistas de la Cooperación, S.L. (ECOPER)

WORKSHOP

for the European Parliament Committee on Development on

The Future of the European Financial Architecture for Development

Introduction

Goal

- This briefing aims to contribute to the discussion on the EFAD's ongoing evolution, reviewing the roles of the EIB, the EBRD and member states' DFIs from the perspective of EFAD's overall performance

Methodology

- The EFAD performance is analysed from a twofold perspective: a development perspective and EU perspective
- It does so by drawing on key documents and data published by these institutions and by the EC in the context of its External Investment Plan and Team Europe.

Argument

- The Team Europe approach emerged as a response to the COVID-19 crisis, but it has overlapped with an intense debate on the fragmentation of the EFAD; the entry into force of the new multiannual financial framework, the enhancement of the EU External Investment Plan and other political factors that have provided momentum to the old idea of better working together.

Background

The EIB

- The EU Bank (88% portfolio in the EU)
- Providing development finance in ACP since 1970s
- Development planning historically limited to broad geographic/thematic targets

The EBRD

- The transition bank
- A regional bank for the EU neighbourhood in partnership with the EC
- Strong capacities in the field providing finance, technical assistance and policy dialogue

Member states' DFIs

- An heterogenous (and unbalanced) network of public entities and funds across EU MS
- Bottom-up coordination and collaboration: EDFI association, European Strategic Cooperation Framework

Analysis

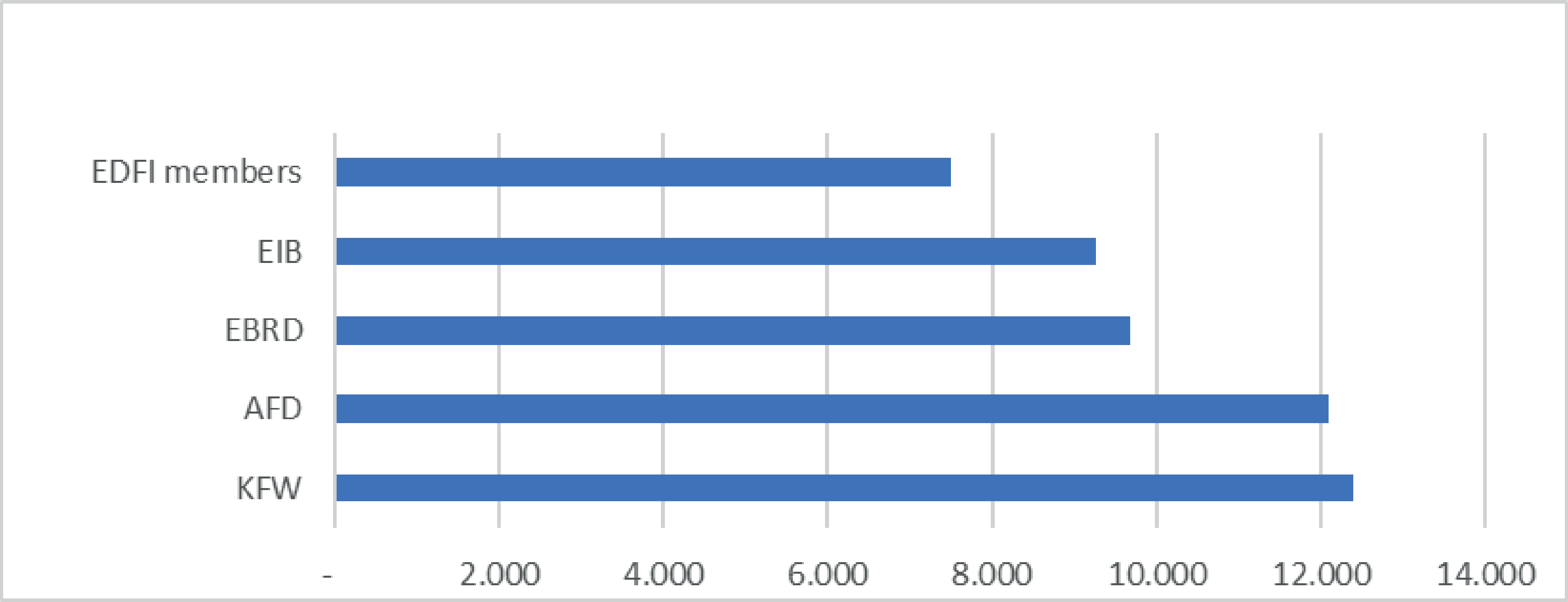
A new European financial architecture for development: What roles for the EIB, EBRD and member states' DFIs?

European Parliament

Overall resource mobilisation

2020 investments by main European DFIs

(EUR million. EIB figures capture only operations outside the EU)



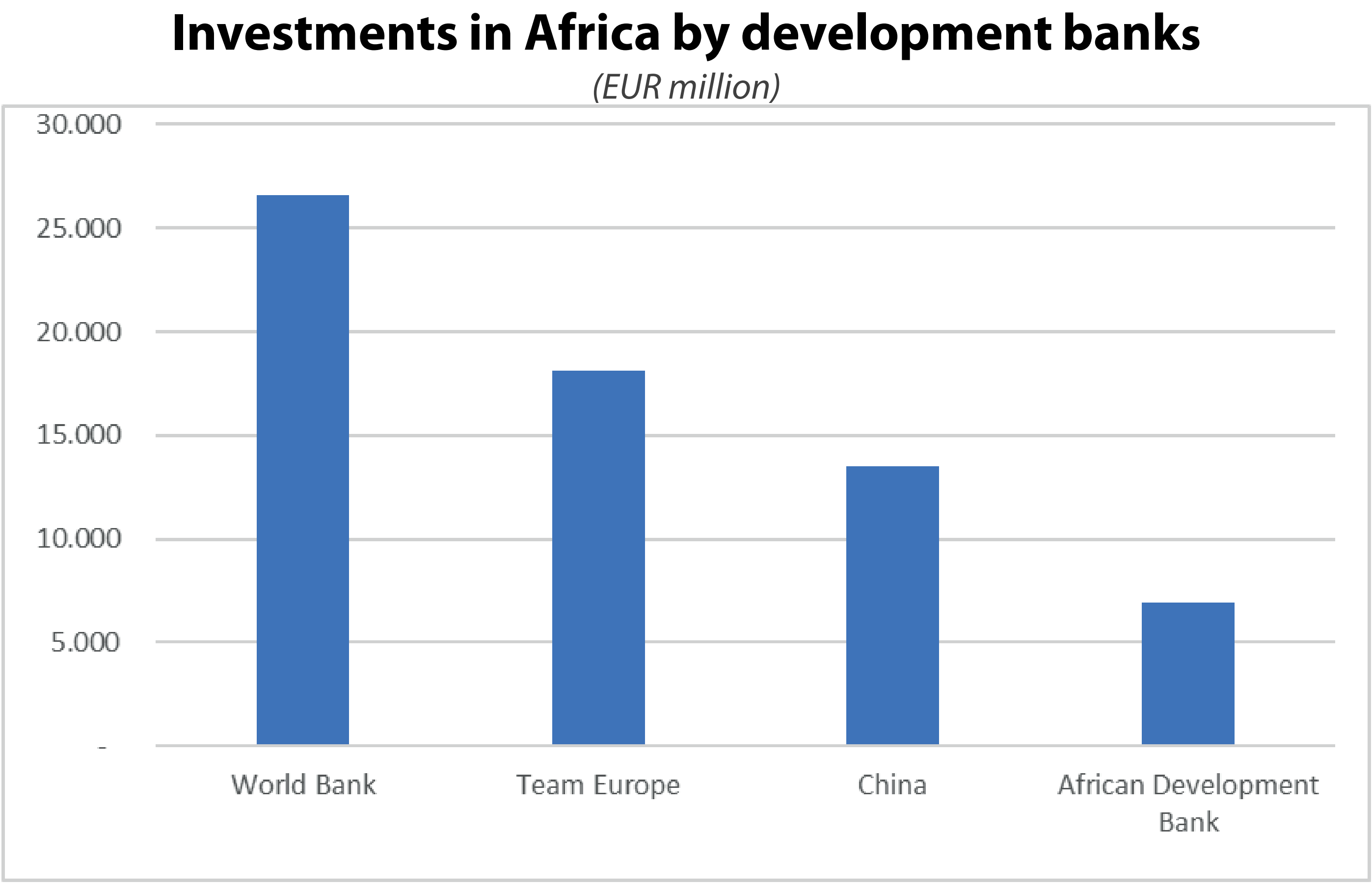
Source: own elaboration with DFIs annual reports (AFD 2021b; EBRD 2021a; EDFI 2020; EIB 2021c; KFW 2020)

Analysis

A new European financial architecture for development: What roles for the EIB, EBRD and member states' DFIs?

European Parliament

EU visibility and alignment to EU political steering



Source: own elaboration with DFIs annual reports (AFD 2021b; AfDB 2021; EBRD 2021a; EDFI 2020; EIB 2021c; KFW 2020; Usman 2021; WB 2020)

Analysis

A new European financial architecture for development: What roles for the EIB, EBRD and member states' DFIs?

European Parliament

Development planning, thematic and geographic focus

Implementation of blending projects by DFI, region and selected topics

(2018-20 External Investment Plan, EUR million)

		EIB	KfW	AFD	EBRD	AfDB	EDFI	Total
Eastern Neighbourhood		251	184	8	179		13	634
Of which:	-MSMEs	75	75		114		-	264
	-Climate	176	109	8	65		13	370
Southern Neighbourhood		127	277	140	284		-	828
Of which:	-MSMEs	26	98	15	130		-	269
	-Climate	41	166	24	155		-	385
Sub-Saharan Africa		417	100	443		680	237	1.877
Of which:	-MSMEs		8	27		112	21	169
	-Climate	378	82	386		538	170	1.553
Unspecified							-	8
Total		795	562	599	463	680	250	3.348
Of which:	-MSMEs	101	182	42	244	112	21	702
	-Climate	595	357	417	219	538	183	2.309

Analysis

Intra-EU coordination

Participation of development finance institutions in Team Europe

Number of national and regional Team Europe Initiatives (TEI) in which each institution participates

DFI	National	Regional	Total
AFD	73	2	75
BIO	5	0	5
CDP	10	2	12
EBRD	14	5	19
EIB	97	8	105
Finnfund	6	0	6
FMO	47	1	48
KfW	45	3	48
Proparco	30	3	33

Source: elaborated with EC (2022a) data

Conclusions

A new European financial architecture for development…

1. Team Europe: a political momentum rather than a new architecture

…What roles for the EIB, EBRD and member states' DFIs?

2. The EIB, the EU development bank with a global scope

3. The EBRD, a regional development bank for the extended neighbourhood

4. The EDFIs are also needed in Sub-Saharan Africa

5. The potential of an EU-AfDB reinforced partnership

Recommendations for the EP

6. A Team Europe annual report

- Resource mobilisation
- Development planning and impact
- Harmonisation and EU standards
- The EU integration perspective

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