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The European External Investment Plan

CHALLENGES AND NEXT STEPS FOR A GAME CHANGER

FINANCE

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Summary

The European External Investment Plan (EIP) provides an attractive framework to leverage private investments differently, improving on current practices to foster sustainable and inclusive growth and to create more decent jobs. It can represent a major paradigm shift in EU development policy and influence the way the EU will position itself beyond 2020, as the EU seeks to use more strategically its aid and policy-clout to leverage private investments in a fully integrated manner.

Yet, to turn commendable aspirations into reality, a number of implementation challenges have to be addressed: i) operationalising the integrated EIP's three-pillar approach, ii) better harnessing (European) development finance entities to the EU agenda and the SDGs, iii) reconciling development impact, risk levels, and disbursement requirements with the pressure to show results, iv) adopting an effective and transparent monitoring and results measurement system, v) fostering complementarity and coherence with other instruments and initiatives, vi) building on African own initiatives and institutions, and vii) better taking into account political economy dynamics on the ground. The EU's biggest challenge will thus be to overcome a natural tendency towards institutional inertia, which could be compound by the rather conservative attitude of many financial entities, not least when dealing with development.

We propose five areas that should immediately be addressed to avoid 'business-as-usual': 1) better reflecting on past (EU) blending experiences and lessons learnt, 2) ensuring complementarity and linkages with other actors, strategies and instruments, 3) better monitoring and evaluation practices and principles, and prudent project selection/eligibility criteria, 4) ensuring linkages to and integration of political economy dynamics, and 5) better integrating African strategies and (finance) institutions. Addressing those can further help the EIP to be the game changer in developing a sustainable pipeline of projects and effectively connecting financial and non-financial support.

Introduction

The European External Investment Plan (EIP), launched in 2017, has been hailed as "an innovative new chapter" by the European Union (EU), "taking its development policy to the next level" (Mogherini and Mimica, 2016). Indeed, it has the potential to represent **a major paradigm shift in EU development policy**, as the EU seeks to use more strategically its aid and policy-clout to leverage private investments in a fully integrated manner, combining in a common framework financial and non-financial support, and enhancing the investment climate, to foster more and better sustainable investment, in particular in least developed and fragile countries (Große-Puppendahl and Bilal, 2018).

The EIP key **innovations** are two-fold:

A. It provides a new **guarantee mechanism** under the European Fund for Sustainable Development (EFSD),
B. Combining, in an **integrated framework**, blended finance (Pillar 1 with the EFSD) with technical assistance (Pillar 2) and an increased attention to improving the enabling environment (Pillar 3 of the EIP).

From a **strategic perspective**, the main potential added value of the EIP lies in its aspiration:

I. To be **more ambitious**, in terms of leveraging finance, impact and reaching out to poorer and more fragile countries,
II. To significantly improve the **pipeline of bankable projects** in less developed and neighbouring countries, in terms of quantity and quality (including by fostering more innovative approaches, better design and preparation, and greater sustainable impact),
III. To foster **greater cooperation** among partner governments, private sector, civil society and development actors towards an enabling environment, and
IV. To change the way EU institutions, donors and development finance entities work together, with a view to promote **greater coherence and synergy** towards achieving the sustainable development goals (SDGs).

The EIP ambitions and objectives can therefore also inform and influence the way the EU will position itself beyond 2020 in terms of financial instruments and strategy for financing sustainable development, responding to the need for systemic changes in financing for development (Bilal, 2018). Building on Große-Puppendahl and Bilal (2018), who have outlined some of the main features of the EIP, this note will address some of the challenges to turn commendable aspirations into reality, pointing to key issues related to its implementation. The rationale is to provide independent, non-partisan analysis and reflection to inform and promote an open and constructive debate. This shall lead to a more effective and 'fit for purpose' institutional and policy set-up, in which the EU can both mainly contribute but also benefit from the 2030 Agenda for Sustainable Development by providing (non-)financial support and expertise.

While some of the challenges and concerns raised are specific to the EIP, there are a number of more fundamental questions that go beyond the current EU's flagship instrument and relate to, for instance, the use of blended finance (Bilal and Große-Puppendahl, 2016b; Bilal and Krätke, 2013; Meeks, 2017; Oxfam, 2017), the role and objectives of development finance institutions (DFIs) (Runde and Metzger, 2017), and multilateral development banks (MDBs) (Bhattacharya et al., 2018; Lee, 2017), the engagement of local (financial) institutions, and the way to monitor and evaluate development impact (OECD, 2018) and additionality (something relevant for development cooperation at large).

Challenges

While - or perhaps because - the EIP is an ambitious, much needed initiative to increase coherence, reach and effectiveness through an integrated approach, a number of challenges have to be addressed (Grosse-Puppendahl et al., 2017; Counter Balance, 2017; Bilal & Grosse-Puppendahl, 2016):

1. How best to operationalise the **integrated three-pillar approach**?
2. How can the EIP most effectively contribute to better **harness (European) development finance entities to the EU agenda and the SDGs**?
3. How to **reconcile multi-objectives** related to development impact, risk levels, disbursement requirements, with the pressure to quickly demonstrate tangible results?
4. Is a reliable and cost-effective **mechanism to monitor and measure results** in place?
5. To which extent is there a **complementarity and coherence** between the EIP and other initiatives and instruments at the EU level and at the international level?
6. How best to build on **African and EU's Neighbourhood countries' own initiatives**, instruments and institutions? and
7. Can the EIP help better **take into account the local context and political economy dynamics** on the ground?

(1) Operationalisation of the integrated three-pillar approach

The first challenge relates to the operationalisation of the integrated three-pillar approach and how to most effectively link the three pillars in a resource-efficient and systematic way. For blended finance and guarantee to be most effective (Pillar 1 - EFSD), the lack of bankable impactful projects (Pillar 2 - Technical Assistance) and the impediment to a conducive investment climate (Pillar 3) also need to be addressed. The key factor for success will thus be how well the EIP will actually be able to connect the different pillars in a strategic and coordinated manner, where needed and feasible, in a way that informs, reinforces and strengthens each one of them - rather than work in isolation from each other, as still too often the case.[1] This will be particularly challenging. So far, the first pillar has been the focus of most of the attention, crystallised around the EFSD regulatory process, including now the submission of proposals by financing entities.

No such regulation or formalisation is required for Pillar 2 and Pillar 3, which is so far left to the discretion of the European Commission, in collaboration with the European External Action Service (EEAS), notably through the EU Delegations (EUDs). As a consequence, the articulation between the three pillars has not yet been properly fleshed out. This is not surprising, given this is still the very early stage of the EIP implementation. But the risk is that the attention remains mainly focused on the EFSD, while fundamental underlying problems often relate to the upstream preparation of pipeline of projects, and the policy, regulatory and institutional environment, which are meant to be addressed by Pillars 2 and 3, in a connected manner and together with Pillar 1.

An additional point for attention is **the nature of technical assistance provided, and its effectiveness**. The European Commission has devoted nearly €5 billion of technical assistance to sub-Saharan Africa over the last 5 years. So, the availability to fund technical assistance does not seem to be a major issue. But the type of technical assistance, and its delivery might. As suggested by the independent evaluation of the EU blended finance (ADE, 2016), the EU's track record of providing technical assistance to private sector related (financing) projects has not been very strong so far. The European Commission might need to adjust the way it provides technical assistance, including in terms of capacity building. Regarding upstream project preparation, insights from good practice could be drawn from the current technical

[1] The 2016 evaluation of the European Fund for Strategic Investments (EFSI) - EFSI is one of the three pillars of the Investment Plan for Europe (IPE) - found that complementarity with the other IPE pillars could be improved.

assistance initiatives. For instance, the EIP could build on experiences of technical assistance support provided under existing EU blending facilities (such as the Latin American Investment Facility (LAIF) for instance), and existing project preparation funds, including by other development actors (e.g. Proparco/AFD). The sectoral experience of EU cooperation on energy for instance, such as the Africa-EU Renewable Energy Cooperation Programme (RECP) and its support to the blending initiative ElectriFi, also offers interesting insights (Große-Puppendahl et al., 2017).

Besides, quick and simple procedures will be needed, if the EU is serious about using Pillar 2 in a smarter way. Given programming exercises at national level, this may not be so easy, if technical assistance is not already earmarked for EIP-relevant activities, or cannot be provided in a flexible manner. Consideration must also be given to whom technical assistance can be provided: governments, DFIs, investors directly, other private sector entities, civil society, or a combination thereof; and how best to reach them in relation to the EIP endeavours. The coordination of the provision of technical assistance, among actors but also across the three pillars is another challenge that will require proper planning, flexibility and reactivity.

Integrating in a coordinated manner the third pillar on **investment climate to the overall EIP architecture will also be challenging.** Traditionally, the EU tends to engage in a policy dialogue along the priority sectors identified in its programming with its partner countries. Typically, there is no built-in ground to engage with partner governments on project-related investment policies. The experience of the EBRD (e.g. with its transition indicators), the AFD & Propacro, and the World Bank & IFC, among others, in connecting investment projects with regulatory, policy and institutional reforms, may be quite interesting in that respect, and a possible source of inspiration of the approach under the EIP. The EU policy dialogues linked to budget support to some of its partner countries might also be a good anchor for EIP initiatives and linkages under Pillar 3. Another opportunity is also to work through EU Member States and their presence and initiatives in partner countries, in particular (but not only) where there is no significant EU presence in the country. In any case, the role of the EU Delegations, and their capacity (or not) to connect the EIP three pillars, tailor policy dialogue accordingly, and connect with EU Member States and other development actors initiatives is critical. Task division and coordination, among EU institutions and within EU Delegations, will also be a critical factor. This also relates to the EUDs' capacity and opportunity to feedback their experiences, observations and ideas back into the policy-making, as also pointed under the sixth challenge about coherence and complementarity.

Ultimately, there is a more fundamental question related to what the EU intends to do with the EIP on the investment climate and policy dialogues: How can the EU best promote policies which stimulate FDI and domestic private sector investment? Will it push for improvement to bring in EU private sector and investors or more broadly to enhance conditions for everyone? Will it seek to establish in each partner country new dialogue platforms, perhaps along its Sustainable Business for Africa platform (SB4A) proposal? Will it seek to address technical issues related to the macro-economic environment, together with the IMF (as in the case of budget support)? Will the EU seek to use the EIP to pursue its new economic diplomacy objectives? And how will these policy initiatives be directly connected to the other two pillars of the EIP? Or will it be 'business-as-usual'? Addressing these challenges seem key to move forward in operationalising the three pillars and linkages between them.

(2) Ambition to better harness (European) development finance entities

A second challenge arises with the ambition to better harness (European) DFIs, including but most importantly going beyond 'the big four' - EIB, EBRD, AFD and KfW. This relates to working better with and through the DFIs, allowing them to identify more impactful projects which could become feasible using blended finance, a guarantee, technical assistance and/or investment climate reforms under the EIP. The challenge is to ensure that these incentives for development finance entities to do more *and* better are effectively translated into practice.

Another challenge relates to how to reconcile the ambition of increased cooperation and coherence among them, while at the same time promoting more competition among them and diversify the development finance entities the European Commission wants to work with. While diversification seems to be a needed and appropriate way forward, in particular to stimulate innovation and build on each development finance entity own comparative advantage, there is also the risk of overly fragmenting the development landscape the EIP can address. Finding the right balance between diversification and consolidation, so as to foster maximum systemic impact, will not be easy. In doing so, the EU should also consider its interaction with non-European IFIs and DFIs, such as IFC and the African Development Bank (AfDB), but not only. The EFSD Regulation Article 11.2 gives priority to European finance actors: "*The EFSD Guarantee shall be implemented whenever possible under the lead of a European eligible counterpart in line with the criteria set out in this Regulation. The Commission shall ensure an effective, efficient and fair use of available resources among eligible counterparts, while promoting cooperation between them*". While this seems to be the result of a political compromise at the EU level, its operationalisation may certainly lead to further tensions, which may affect the effectiveness of the EIP implementation.

(3) Reconciling development impact, risk levels and prompt results imperatives

A third challenge is about striking the delicate balance between fostering greater development impact, allowing for manageable levels of risk for investors, and demonstrating quickly some results. The EIP aims to be a game changer, doing things differently than previously, under the EU regional blending facilities for instance. This means being more ambitious, in terms of additionality and impact, going where others have not been sufficiently active, both in terms of geography (less developed, more fragile and post-conflict affected countries as well as remote and rural regions) and sectors (e.g. digital for development or MSME financing). Addressing the issue of poor and fragile context will be key, as "by 2030, economists project that 40 to 60 percent of the poor will be living in states now deemed fragile", hence, the importance to channel more private capital flows into such vulnerable countries (Lee, 2017). This ambitious endeavour poses numerous challenges.

Investment projects in fragile environments are more difficult to prepare and implement, in particular to ensure their sustainability, in financial terms and in terms of their development impact. This takes dedicated efforts and time, as readily bankable projects in such countries are generally already identified and financed by entities, such as IFC. There is no quick win available. This might be a challenge for the EIP, which needs to show results promptly to demonstrate it can make a difference. Financing projects in less complex and more stable environments might therefore quickly become a fall back position to show results. Besides, the required and acceptable level of risks (to be more ambitious and impactful) may still be perceived as too high, when operating in more fragile contexts. The fear of losing public funding (often not referred as a 'loss' but as a 'waste' when taxpayer money is concerned), if projects fail to generate sufficient returns, may dissuade the EIP stakeholders to engage in more impactful but complex environments (Counter Balance, 2017). The EIP may also face a tension between the ambition to maximise both the leverage ratio (expected to be 1:11 with the EFSD) and development impact, as there can be a trade-off between the two.

Last, but not least, the framing of the EIP, in terms of the need to tackle the perceived migration crisis and be impactful in fragile countries, as well as the need to demonstrate that the EIP can deliver timely results to feed in the post-2020 discussion on the EU development finance architecture, puts a lot of pressure on the EIP to show it is a game changer. This is some kind of a 'catch 22' situation, in terms of speedy delivery, high leverage, high impact, and coordinated approach among the three pillars of the EIP that may not progress in sync.

This therefore also calls for a differentiated approach within the EIP, according to the level of development of countries and their investment climate, expected levels of financial returns, risk, leverage ratio, and development impact sought, so as to create a diversified portfolio of projects and actions within the EIP.

(4) Monitoring and evaluation

EIP performance, outcomes and impact relate to the **fourth challenge of monitoring and measuring results**. In order to better understand what works where and under which conditions, a well-working monitoring and evaluation (M&E) system is key. This can also better inform involved stakeholders about i) how to measure the additionality of projects and finance, ii) the adequate amount of the public finance element, iii) the leverage effect, iv) development impact, at project and systemic levels. This is key to assess how smart and effective public aid can be.

Adopting the appropriate M&E methodology, identifying reliable indicators, and reporting in a transparent manner will be critical factors for the credibility of the EIP and for its adaptation and evolution over time. In doing so, the cost of measuring results should also be taken into consideration, relative to the pursued development objective, so as to ensure the effectiveness of the system. This will also imply some alignment and harmonisation between monitoring and measuring results across DFIs, IFIs, and the European Commission, at least within the EIP, and preferably more broadly. It will allow to compare and report on results across projects, regions and instruments and initiatives at the EU level and beyond (e.g. World Bank/ IFC and other MDBs/DFIs). While this is particularly relevant for the EFSD pillar, tracking how Pillars 2 and 3 are performing is equally important and needed to understand their contribution to and role within the EIP.

(5) Complementarity and coherence of the EIP with other initiatives

Beyond comparing results**, the fifth challenge for the EIP relates to its complementarity and coherence with other initiatives and instruments at the global, national and EU levels** that also seek to promote sustainable and more inclusive investments, leveraging private finance for sustainable and inclusive growth along the SDGs. The most relevant instruments in that regard either provide for similar support activities (blending, risk mitigation, technical assistance) or are to some extent overlapping in their overall approach with what the EIP envisions. These include, amongst others:

1. The **IDA18[2] IFC-MIGA $2.5 billion 'Private Sector Window'** to mobilise private sector investment in IDA-only countries, with a focus on IDA-eligible fragile and conflict-affected situations (FCS) addressing the challenges in attracting foreign investment and growing the domestic private sector in frontier IDA and FCS markets require de-risking at both the country and transaction levels;
2. The **G20 'Compact with Africa'** initiative to develop comprehensive, coordinated, and country specific investment compacts between individual African countries, international organisations (IMF, World Bank Group, AfDB), and other partners - initiated by the German G20 presidency in the Finance Track to promote private investment in Africa, including in infrastructure;
3. The **EU Emergency Trust Fund for Africa**, which was launched at the Valletta Summit on Migration in November 2015 by European and African partners, "to tackle the root causes of irregular migration and displacement in countries of origin, transit and destination, through a range of priority sectors";[3]
4. The **EIB's led ACP Investment Facility (IF) and its Impact Financing Envelop (IFE)**, to foster investments and leverage private finance in ACP countries and to support projects promoting the

[2] The International Development Association (IDA) is the World Bank's fund for the world's 77 poorest countries, which is overseen by 173 shareholder nations aiming to reduce poverty by providing loans / grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions.

[3] A Trust Fund is a development tool pooling resources from different donors to enable a fast, flexible, and collective EU response to the different dimensions of an emergency situation, e.g. for Africa.

development of the private sector and commercially-run public enterprises, as well as the **EIB's Economic Resilience Initiative (ERI)** in order to rapidly mobilise additional financing to support the Southern Neighbourhood and Western Balkans capacity to absorb and respond to crises and shocks, such as the Syrian refugee crisis, while maintaining strong growth;

5. The German Federal Ministry for Economic Cooperation and Development (BMZ) driven '**Marshall Plan with Africa**' in order to enable a new partnership between Africa and Europe to emerge going beyond traditional, project-based development cooperation, to strengthen the African states' own development capacity by bringing together economic, financial, trade, security, legal, environmental & health policy-related aspects, while concentrating on reform champions (fight corruption, develop their tax systems, invest in education & work for gender equality) than in return benefit from international investments; and
6. Other initiatives by EU Member States (e.g. France, Italy) and other development partners (e.g. EBRD, Japan).

The multiplication and fragmentation of initiatives may become counterproductive, if synergy and complementarity is not more systematically sought out.

The issue of coherence and coordination also comes into play, when considering the EU internal programmes, initiatives and instruments, such as budget support or geographic and thematic programmes. One substantive issue for the success of the EIP relates to the tasks and capacity of the EU Delegations, and their relations with Headquarters in Brussels, as their roles, task division, expertise, coordination may differ, depending on the type of activities, policies, instruments and programmes (e.g. geographic or thematic). Are the European Commission and EEAS internal procedures, coordination structures, capacity and current incentives aligned to the objectives of a smooth and effective delivery of the EIP?

(6) Building on African and EU's Neighbourhood countries' own initiatives

The sixth challenge relates to how best to build on African and EU's Neighbourhood countries' own initiatives, instruments and institutions. Support and building upon their own strategies and initiatives, and better integrate their voices and concerns throughout the EIP implementation process, will be key for the relevance and local ownership of the EIP activities. This has also been one of the main criticisms by African partners in the run up to the adoption of the EIP, who have not felt sufficiently consulted, the EIP discussion having been mainly an internal EU affair. Building on African and Neighbourhood countries' institutions and initiatives is also key to avoid the EIP substituting for local initiatives and crowding out local development finance institutions, rather than harnessing their potential, as is the case with the AfDB for instance, where the EIP envisioned activities are meant to further strengthen AfDB own endeavours.

(7) Local context and political economy dynamics

The last but equally demanding challenge will be to better take into account the local context and political economy dynamics on the ground. The successful implementation of the EIP rests in large part on the important role the EU Delegations are expected to play with regard to identifying and understanding local context and realities, to provide insights and identify measures to address local complexities and stimulate reforms. Understanding local conditions, power relations and stakeholders interests will be capital for tailoring the EIP activities and shape their chances of success.

This also raises legitimate questions about the role and actual capacity of EUDs and whether the EU intends to step up its efforts to better integrate political economy approaches to its activities. This holds true for other EU institutions, EU member states and of course the development finance entities benefiting from EFSD support. In this regard, their local presence, and ability to network and rely on EU institutions and member states presence on the ground is also a key factor to emphasis.

It also needs to be recognised that each sector and the agreed dedicated investment windows per se are complex, marked by different dynamics, interests and incentives across various actors and therefore difficult to change fundamentally within the envisioned EIP approach. Sharing information and lessons, and coordination among development actors and local stakeholders should also become an important dimension of the EIP for its successful implementation.

The concluding section sums up some key considerations on the way forward building on the EIP innovations, while taking the aforementioned challenges into account.

Way forward

The External Investment Plan provides an attractive framework to leverage private investments differently, improving on current practices to foster sustainable and inclusive growth and to create decent jobs. The EU has shown that when committed, it can act promptly and decisively, as exemplified by the EFSD regulatory process and the strong focus on getting the EIP 'machinery' running. Yet, *the proof of the pudding is in the eating*. The merits of the EIP will rest mainly in the potential to change the mindset and practices among development actors. The biggest challenge for the EU will thus be to overcome a natural tendency towards institutional inertia, which could be compound by the rather conservative attitude of many financial entities, not least when dealing with development. Therefore, the **danger of a 'business-as-usual'** may prevail in practice in two dimensions.

First, **the EFSD may fail to be a game changer** in the pipeline of projects. This can be the case if major development finance entities simply repackage their current approaches, relying on EU funding and guarantee under the EFSD to carry out blended finance projects they could have undertaken anyway. While some of this will happen anyway, it is important for the EFSD to be able to demonstrate a clear additionality and to lead to effective improved practices and leverage effects (not just in terms of quantity, but mainly in terms of quality and impact) of the blended finance programme proposed. While it is too early to make a judgement yet, initial interest expressed by development finance entities for the EFSD suggests that the selection process - if not politically driven - should allow the EU to identify the most innovative and impactful programme proposals.[4]

Second, **the EIP may fail to be a true game changer if its three pillars are not effectively connected**. In spite of good will, institutional resistance will have to be overcome for coordination and coherence to improve. This means also addressing issues related to procedures, capacity and most importantly, incentives. Coordination with Pillar 1 makes sense, but it is not a simple task in practice. For instance, many development finance entities are not equipped to address - or even link to - issues related to the enabling environment under Pillar 3. Similarly, task division within EU Delegations and at the Headquarter may not be conducive to link the three pillars. Even helping assessing initial proposed packages or programmes submitted by development finance entities under the EFSD may become a quite complex exercise. The time frames need to be synchronised, and responsibilities well coordinated. EU institutions, and the EIP Secretariat in particular, seem well aware of this challenge, and have adopted the right rhetoric, stressing the importance of the EIP has an overarching framework. But turning principles into practice will be challenging.

[4] For the first two investment windows (on energy and MSMEs), 12 financial entities have submitted programme proposals for a combined value amounted to €2.5 billion, already exceeding the €1.5 billion guarantee fund under the EFSD. Proposals for the remaining EFSD 3 investment windows were due by the end of March 2018, hence not available at the time this note is written.

Focusing on the following **five key areas** can help address some of these challenges and avoid 'business-as-usual'. These areas do not have clear-cut dividing lines, which means that progress in one can positively impact other areas and *vice versa*. Recognising the interconnectedness as well as complexities for and within each area alone is therefore a first step to take adequate and immediate action.

1. **Better reflection of past (EU) blending experiences and lessons learnt, including by other actors,** such as the EIB and EBRD, the World Bank Group, including IFC, and other EDFIs both in Africa and the EU Neighbourhood but also beyond, e.g. LAIF.
2. **Ensuring complementarity and linkages with other actors, strategies and instruments,** such as the ID18 IFC-MIGA 'PSW', the EIB's ACP IF and ERI, the G20 'Compact with Africa' initiative, and the BMZ-led 'Marschall Plan with Africa'.
3. **Better M&E practices and principles as well as prudent project selection and eligibility criteria**, building on EU experiences (e.g. EIB ReM+) but also international best practices (e.g. IFC 3.0, new approach to measure development impact, WBG development principles).
4. **Ensuring linkages to and integration of the political economy context and dynamics**, understanding and taking into account local actors and factors as well as interests, incentives and power structures impacting project development and implementation.
5. **Better integration of African and neighbouring countries voices, strategies and (finance) institutions**, building on and supporting their own priorities and actors to avoid market substitution and distortion.

Additionally, there are a number of **other key takeaways** that deserve attention on the way forward in terms of review and potential adjustments throughout the implementation period - until 2020 but certainly beyond in any EIP continuation or immediate follow-up instrument.

While it is clearly a welcome and much needed step to go beyond the 'big four' - AFD, EBRD, EIB and KfW - by including the EDFIs and other IFIs and DFIs, when it comes to EU blended finance (Bilal and Grosse-Puppendahl, 2016b), it is also clear that **the EIP seems to be a primarily DFI-tailored instrument**. This not only risks the recycling of DFI projects but also potentially undermines the ambition of being different from past activities and leveraging beyond DFIs, most notably private sector companies, corporations and also philanthropic investors (such as the Bill and Melinda Gates Foundation (BMGF), which decided to contribute to the EFSD).

There is also a question about the **financial set-up of the EFSD**. Unlike the EIB experience with the ACP IF, which as a revolving fund is able to reinvest returns on investments and hence becomes economically viable in the long term (Bilal and Grosse-Puppendahl, 2016a), the EFSD is a grant-based fund which can be depleted. The fact that the ACP IF has been successful for almost 15 years shows that this could be a potential model for the EIP in the future, even more so with the ESFD Guarantee. This would allow for EFSD capital endowment to be increased with the returns on investment. An additional option would be to further open up the EFSD Fund to both public and private investors, who would consider such as vehicle a well-managed fund for their investments pursuing development beneficial and inclusive activities. So far, besides BMGF, no other private or public entity has committed additional funding to the EFSD capital though. Arguably, such options might provide the format for a European Development Bank, perhaps along the lines of the proposed EIB's development subsidiary, whose contours have not yet been publicly announced.

Another key concern however remains to be the issue of including more non-EU DFIs and IFIs to not only leverage their financial resources but also expertise and experiences (Grosse-Puppendahl et al., 2016), in particular from WB/IFC Africa operations but more importantly African (regional) development banks, including but also beyond the AfDB. This would also help to support market and institutional development ambitions that are not going to be sufficiently addressed by continuing market substitution through

international and European actors that perform and provide (financial) services rather than building capacity and expertise among and within African banks. Recognising the complexity and high requirements for a successful 'Seven-pillar-assessment' to be an eligible lead EIP counterpart, it needs to be noted though that only by using and working through African banks their quality and market share as well as potential can be fully utilised and developed, which in turn not only triggers more jobs and an enhanced business environment but one key pathway for sustainable and inclusive economic transformation and prosperity for the continent.

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- European external affairs
- African institutions
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- Migration
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- Regional integration
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Making policies work

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