

Five priorities to upgrade the EU's external investment tools in the next MFF

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Summary

The EU's next long-term budget – the multiannual financial framework (MFF) for 2028–2034 – offers a critical opportunity to align its external investment instruments with its geopolitical, development and economic ambitions. A recalibrated external investment architecture should build on lessons from the European Fund for Sustainable Development Plus (EFSD+). It must be guided by the strategic imperatives of European competitiveness, strategic autonomy and security – which are already reflected in key initiatives such as the Competitiveness Compass, Global Gateway strategy, the Critical Raw Materials Act, and Clean Trade and Investment Partnerships.

We recommend the EU to implement five changes to improve its external investment architecture in the next MFF. Beyond streamlining processes (change 1), we stress the need to modernise the governance and management of the EFSD+ successor (change 2), adopt a differentiated approach to instruments aligned with country and sector contexts (change 3), and ensure that both the architecture and its implementation are inclusive, coordinated and fit for purpose (change 4). Most critically, we recommend the EU to enable more strategic and pragmatic engagement of European private sector actors in Global Gateway investments (change 5).

Modernising the EU's external investment approach is essential to ensure limited resources deliver strategic impact where it matters most, aimed at generating the policy, development and economic returns Europe needs in a more contested and uncertain global context. This requires a more flexible yet predictable and inclusive instrument and architecture, grounded in stronger collaboration between the European Commission, member states and implementing partners.

A new multiannual financial framework to “do something”!

As Draghi puts it: “Time is not on our side” [...] So when you ask me what is better, what is best to do now? I say I have no idea. But do something!”

The [multiannual financial framework](#) (MFF) is a great opportunity to “[do something](#)” and introduce the [much-needed changes](#) to make the European financial architecture and instruments fit to achieve the EU strategic objectives. This is particularly true when it comes to the EU's external financial instruments, including the European Fund for Sustainable Development Plus (EFSD+) – a central instrument to help deliver the promised EUR 300 billion of public and private investments under the Global Gateway strategy.

The EFSD+ was designed as a development cooperation instrument in the pre-pandemic world, ahead of the Team Europe approach, the [Global Gateway strategy](#), the [Critical Raw Minerals Act](#), the [Clean Trade and Investment Partnerships](#), et cetera. While it has great merits, the EFSD+ – and especially the open architecture window – fell short on several yet critical objectives, from an [effectiveness](#) perspective (its implementation is slow, costly and cumbersome), a [development](#) perspective (it remains challenging for financial institutions to invest in the most complex contexts including fragile states and social sectors), and a [geostrategic perspective](#) (it is ill-suited to support Global Gateway flagship projects, it hardly contributes to the digital transition, and it cannot effectively support the engagement of the European private sector, a now prominent objective under the Global Gateway and the European Competitiveness agenda). The functioning and the architecture of the EFSD+ have also shown some limitations, affecting the efficiency and impact of the instrument.

This does not mean that the external action guarantees and blending under the EFSD+ should be abandoned, but rather that mechanisms should be adjusted and complemented, drawing lessons from what has worked and not worked and ensuring that the instruments under the [next MFF](#) are fit to deliver on the EU's rapidly evolving policy objectives.

This brief highlights some of the key improvements and changes that the European Commission should consider for its proposal for the 2028-2034 MFF. It builds on ECDPM's backward-looking work on the EU's external action guarantees (including the Evaluation of the EU's External Financing Instruments (2014-2020 and 2021-2027, which included the [ex-post evaluation of the EFSD and the mid-term evaluation of the EFSD+](#)), and forward-looking work based on regular and close interactions with European implementing partners and other financiers and experts. Yet, the views expressed in this brief are those of the authors only.

Key improvements

Priority #1: Streamline the contractual and implementation process, which is currently too burdensome, complex and slow

1.1 Accelerate and adapt the contracting process (drawing lessons from not only the EFSD+, but also InvestEU).

1.1.1 Shift from a case-by-case (specific to individual proposed investment programme (PIP)/guarantee) approach to a single framework contract based on standardised and streamlined templates per implementing partner, including a streamlined process to amend the contract to better respond to the EU's evolving policy objectives. Similarly to what is in place within the EFSD+ blending operations, a single template would greatly encourage joint PIP/guarantee initiatives between financial institutions. Last, negotiations between the European Commission and implementing partners on the guarantee and technical assistance should take place together (as the level of technical assistance influences the type of investments/risks an implementing partner can take). As for guarantee activities, blending contractual processes should also be streamlined.

1.1.2 Draw lessons from InvestEU's challenges, by finding ways to cut down the necessary time to negotiate the guarantee framework agreement, putting in place reporting requirements ensuring accountability and transparency, and tracking impacts whilst avoiding time and resource-intensive requirements and processes.

1.1.3 Revise and co-create with the implementing partners the new Risk Management Framework (RMF), to ensure that: a) the RMF and some of the underlying requirements (such as skin-in-the-game - in other words implementing partners' financial exposure to a transaction - requirements) do not prevent implementing partners from investing, especially for those that are deemed strategic by the European Commission; and b) the requirements can be flexible without requiring lengthy and/or burdensome processes that would slow down time to market.

1.1.4 Provide more transparency and predictability around a) risk pricing of the guarantee; and b) the policy discount, to facilitate and accelerate the deployment of the guarantee.

1.2 Limit the duplication of information, reporting and audit-related processes to minimise transaction costs and provide relevant products for the markets targeted.

1.2.1 Rely as much as possible on the pillar assessment process instead of conducting extra checks and audits/verifications on those procedures. The pillar assessment ensures that implementing partners have the necessary processes in place (for example, relating to internal controls, accounting, anti-money laundering and data management) to protect the EU's financial interests.

1.2.2 Adapt the horizontal requirements (such as anti-money laundering measures, international conventions and complaints mechanism), which are largely shaped by intra-EU considerations/type of operations, and cause additional transaction costs that are passed on to financial institutions' sovereign and/or private sector clients. This makes the financial product less attractive from a beneficiary perspective and adds to reporting costs.

1.3 Ensure a strong policy steer as well as a smooth deployment of EFSD+ successor's instruments.

1.3.1 Clearly [specify the EU development, climate and geostrategic objectives and criteria](#), including the articulation of the EU interests, which will guide the EFSD+ successor (as well as the broader global Europe fund), as well as clear investment criteria and reference frameworks.

1.3.2 Ensure a clear and more strategic link between the EFSD+ investments and key EU policy processes (the scale-up of the Global Gateway) and flagship projects and Team Europe Initiatives (TEIs) (wherever relevant). Two approaches were put forward under EFSD+ guarantees: window 1 for sovereign and non-commercial sub-sovereign operations, where the European Investment Bank Global (EIB GLO) follows a specific approval process, ensuring that its investments respond to the interests of the EU, and priorities of the European Commission; and the open architecture window, which provides the guarantee based on an indicative pipeline of projects, not necessarily linked directly to TEIs and Global Gateway flagship projects. There is a need to draw lessons learnt from these approaches and develop a mechanism that ensures a strong policy steer of the European Commission and the EU member states (such as improving the effectiveness of the EFSD+ Strategic Board and Operational Board, which could be combined) whilst following a streamlined process, that is fast and not burdensome.

Priority #2: Improve the management of the EFSD+ successor

2.1 Ensure that the growing number of European Commission's directorates-general (DGs) managing the instrument does not translate into different standards, processes and approaches while working on the same instrument and/or with the same implementing partners.

2.1.1 Ensure a [coordinated yet flexible management](#) of the successor of the EFSD+. Having DG INTPA together with DG ENEST, DG MENA and potentially others, depending on the architecture (DG ECHO, DG GROW and DG TRADE), is a sensible approach to adopt a tailored yet flexible approach to different regions and issues. Involving different DGs should not translate in more siloes and less synergies

between instruments, nor a differentiated set of processes (information requirements or other) that would require financial institutions to produce slightly different inputs for each DG's needs (as it was the case between DG INTPA and DG NEAR).

2.1.2 Adopt a centralised secretariat for the EFSD+ successor, which would include all relevant DGs' guarantee management in a single structure, to ensure coherent processes.

2.2. Set clear, distinct yet coherent processes, rules and budget allocations for development cooperation and finance, EU accession and export credit.

2.2.1 Set clear yet coherent processes and rules for activities related to development cooperation, the EU accession process and export credit, given the significant differences (in terms of actors, instruments, approaches, et cetera) – which is only relevant for the EFSD+ but the future global Europe fund. This will help ensure some degree of predictability/flexibility, which can help financial institutions respond to the needs/priorities of local contexts, EU policy objectives, and avoid potential confusion on why, for instance, specific approaches or investments can be made in one context but not in the other.

2.2.2 In addition, predictability in terms of the budget allocated for these different issues is also of prime importance to secure the engagement of financial institutions and allow them to develop proposals in line with the EU objectives and financial budget. A smart trade-off must be struck between having a flexible budget and one that is predictable, in a way that facilitates impactful and transformative investments.

2.2.3 A payment-by-results approach, if generalised to EU accession countries, also creates additional unpredictability for partner countries, and how much financing they could benefit from and hence allocate. In turn, this means less predictability for financial institutions and their long-term engagement in those countries.

2.3 Enhance the strategic and operational oversight by the EU member states together with the European Commission.

2.3.1 Draw lessons from the EFSD+ Strategic Board and Operational Board, which did not meet in a sufficiently regular manner, whose effective mandates tend to overlap, and which suffered from insufficient transparency and steering, ensure that the EU member states are well-associated in the management guidance and oversight of the EFSD+ successor.

2.3.2 Consider widening the composition of the successor of the EFSD+'s Strategic Board to include members of the European Bank for Reconstruction and Development (EBRD), the Joint European Financiers for International Cooperation (JEFIC) network and the Association of European Development Finance Institutions (EDFI) as permanent observers, to reflect the Team Europe approach and strengthen dialogue and mutual understanding between financiers and policymakers. This would also help strengthen the European Commission's policy steer and alignment with EU policy objectives and standards.

Priority #3: Tailor the instruments of the EFSD+ successor to achieve EU policy objectives

3.1 Adopt financial instruments that are fit to deliver on the EU's ambitions and strategic objectives, recognising that mobilising private capital at scale can be done where markets are fairly developed (for example, middle-income countries), but less in challenging contexts where development finance can be most additional.

3.1.1 Reconsider the balance between resources dedicated to guarantees and blending/grants operations, in order to achieve the EU's strategic objectives. While EFSD+ puts a stronger emphasis on guarantees, they are not silver bullets. Guarantees are most useful and relevant where markets are sufficiently developed, and play a key role in mobilising private capital at scale. Blending and grants are often more effective and thus relevant, especially for challenging contexts (fragile countries and least developed countries) and sectors (such as health, education and agriculture).

3.1.2 Consider additional instruments beyond guarantees and blending, including policy-based loans and performance-based instruments (where relevant), and consider tailored guarantee coverage on specific risks such as local currency lending/risks hedging. This would also reflect better the 360-degree approach promoted by the European Commission.

3.1.3 Complement the current toolbox by providing a guarantee system that would also allow for project-specific guarantees, aligned with EU priorities and that could facilitate the financing of Global Gateway flagship projects and other key strategic projects, which otherwise may not be financed at the needed scale and speed. Currently, guarantees are often used to support broad projects' pipelines rather than targeted strategic initiatives. While this type of approach should be kept in the EFSD+ successor – given its scaling-up potential and its importance in mobilising the likes of institutional investors, it will not necessarily help the European Commission target strategic projects under Global Gateway.

3.1.4 Importantly, strike a careful balance between a project and programmatic approach, as they can contribute to two fundamental principles of the Global Gateway: policy steer and scale-up of investments. In practice, whilst a project-based approach can strategically support EU priorities, it may undermine the potential to scale up investments and develop systemic approaches. It may also be challenging for implementing partners because it is less predictable than a portfolio guarantee – which is more flexible and well-placed to support investments at scale and in doing so attract institutional investors, whilst being less policy (and rather market)-steered.

3.1.5 Strengthen collaborative approach between the European Commission and implementing partners, independently of the type of instruments and approach, to ensure impactful European investments. For instance, the innovative approach – call for expression of interest – developed by the European Commission to engage the European private sector in key contexts (Ukraine) and sectors (CRM) should better involve the implementing partners in the selection of projects not to ensure their policy merit (which is the focus of the European Commission) but their bankability, so that those call for expression of interest do not generate surprise or frustration from selected proposals which cannot benefit from any financial support.

3.1.6 Revise relevant regulations that restrict the full integration of EU funds with resources from implementing partners and other donors in multi-donor funding arrangements.

3.2 Support innovations aiming to exploit the full potential of guarantees in attracting private capital at scale.

3.2.1 Consider approaches to mobilise European private capital in emerging markets and developing economies (EMDEs). The objective is to attract and leverage investment from a broad spectrum of private sector actors – including banks, institutional investors, corporations and impact investors – towards projects that promote EU policy objectives in emerging and frontier markets. This helps reduce dependence on public funding and makes the EU's offer a more integrated and attractive one.

3.2.2 Put forward approaches, including programmatic forward-looking syndication of financial institutions' asset portfolios (similar to the International Finance Corporation's Managed Co-Lending Portfolio Program), synthetic securitisation platforms, unfunded risk transfer and multi-asset platforms, to attract institutional investors' capital and tap into the reinsurance market, which has not been leveraged until now.

3.2.3 Consider supporting a systemic approach to addressing the lack of bankable projects, building on the lessons learnt from European approaches (for example, the Dutch Entrepreneurial Development Bank (FMO)'s market creation platform) and international approaches (such as the Inter-American Development Bank (IDB)'s originate-to-share business model).

3.3 Optimise the guarantee budget to deliver a greater volume of impactful investments

3.3.1 Reassess and, when possible, lower the level of provisioning needed for instruments such as the EFSD+ Guarantee and the Ukraine Investment Facility's guarantees. This will enable a more effective use of the EU budget ensuring more leverage on every euro. The current provisioning being set ex-ante, by constructing a 'theoretical' (dummy) portfolio of projects, also obliges

implementing partners to build a pipeline ex-post matching the level of provisioning rates – which in some cases limits their capacity to invest in more strategic yet riskier types of projects that may be fully in line with European policy objectives.

3.3.2 The fact that equity investments are provisioned at 100% also acts as a disincentive to use such a product, which at the same time is seen as crucial and even more relevant by the partner countries' private sector.

Priority #4: Foster an inclusive yet positively competitive architecture and ensure a smooth implementation of the funds

4.1 For private sector operations, whilst the open architecture approach should be maintained, improvements are required to make it fit for purpose and ensure a fast deployment of the instrument.

4.1.1 While the open architecture window plays an important role in fostering a more coherent and impactful European financial architecture for development, its slow and resource-intensive deployment has made it challenging to work with, both for the European Commission and implementing partners. Priorities #1, #2 and #3 above highlight some of the specific solutions that could be implemented to avoid these issues.

4.1.2 Develop regulations that are aligned with EU values and standards, whilst fostering investments in developing economies. The revision of the Omnibus will be key to ensure a comprehensive, sustainable finance framework that can guide the EU's operations in emerging markets, specifically recognising the development impact made by institutions to mobilise additional private funding, and recognising those agencies that contribute to climate action in line with the Paris agreement. Likewise, adapting prudential regulatory frameworks, ensuring their global interoperability while considering the unique operational modalities of European impact and commercial investors in EMDEs, is important to unlock European institutional investors' capital.

4.2 For sovereign operations, consider two potential pathways to strengthen the European financial architecture.

4.2.1 Option 1: Consider a partial opening of the sovereign window, a) which should not come at the expense of the fast and smooth implementation experienced until now; b) where part of the sovereign operation guarantee should be dedicated to the EIB GLO, because the EIB GLO does not receive guarantees from EU member states, and given its importance and role outside of the EU, and c) where the implementation of the Art. 39, established under EFSD+, should be streamlined – with the potential to move from project to portfolio approach –, smooth and supported by sufficient European Commission's capacities, given that several public development banks (PDBs) in addition to the EIB would be using it.

4.2.2 Option 2: Consider alternatives to enable access to the EU budget for the bilateral PDBs without opening the sovereign window. This could be done as follows: the European Commission provides the sovereign guarantee to the EIB, which, according to a framework and criteria established by the European Commission, could either a) pass on the guarantees to bilateral PDBs; and/or b) provide a funding lines in the form of a cheap loan to bilateral PDBs.

4.2.3 Independently of which option is chosen, the JEFIC together with the EIB should consider extending the mutual reliance initiative to all JEFIC members, approaches such as the EDFI European Financing Partners or the Interact Climate Change Facility could also be replicated and improved in the context of a JEFIC+EIB strengthened cooperation.

4.3 Incentivise European financiers to work more with and through regional/national development banks, which can be leveraged to upscale investments and impacts.

4.3.1 Leverage not only European financial institutions, but also multilateral, regional and national PDBs that can help unlock investments, and reach more challenging sectors and contexts. This would lead to a greater impact, with the same or limited resources.

4.3.2 Upscale and broaden the partnership of European financial institutions with multilateral, regional and national development banks beyond identifying co-financing opportunities, to build capacities, adopt international standards/taxonomies, develop a pipeline of bankable projects, et cetera.

Priority #5: Engage the European private sector and investors to support the EU's economic interests

5.1 Adopt a strategic yet pragmatic approach to public procurement that supports the EU's economic interests and impacts.

5.1.1 Assert the EU's economic interests in a pragmatic manner. Financial institutions have been making increasing efforts to assess, rethink and adapt their approach to procurement and find additional ways to support the EU's economic interests.

5.1.2 Strategic procurement should come with clear operational guidance and rules regarding e.g. 'rules of origins'. For instance, [article 11 of the regulation setting up the Ukraine Facility](#), which promotes a European preference in public procurement, does not offer guidance as to what "European" means in practice and it applies to all sectors equally. Strategic procurement should remain pragmatic and tailored to European competitiveness and presence (or absence) in some industries (such as solar energy); and help ensure clear financial and technical (sustainability) value for money to ensure/maximise investments' impacts. Importantly, including a provision giving preference to a group of countries, makes it challenging for European financiers to work / co-finance with non-EU institutions, characterised by open public procurement systems. In turn, this may push European implementing partners to finance more and/or alone, which is not necessarily something they can do, in respect to their risk management practices.

5.2 Consider non-ODA instruments to support the European private sector in Global Gateway endeavours.

5.2.1 Set up additional mechanisms beyond official development assistance (ODA) to facilitate and support the participation of the European private sector

(not only large companies which some implementing partners can do under own resources) but also small and medium-sized enterprises (SMEs) and European private financiers in the EU's external investments, in a mutually beneficial manner for partner countries.

5.2.2 Consider a specific guarantee, technical assistance and blended facility for export credit agencies and investment and trade promotion organisations. This can be done under an enhanced EFSD+ mechanism (with a dedicated non-ODA window for export credit agencies - ECAs), under an international window of the EU Competitiveness Fund/InvestEU, or under an international window of the Connecting Europe Facility-type of mechanism. This allocation should not come at the expense of the external action envelope in a context of scarce funds for external action.

5.2.3 Start piloting and testing an ECA guarantee mechanism in the short-term rather than at the start of the next MFF, to better understand what works and what does not, before designing and scaling up any instruments and approaches under the next MFF. The EIB, through the European Investment Fund, is already managing an export credit facility, to support trade and investment in Ukraine. In this context, the existing experience and capacities of the EIB Group could be leveraged to facilitate a short-term implementation of an ECA guarantee mechanism.

Conclusion

The EU needs to upgrade its external investment tools to have the right instruments to support its policy objectives, in an increasingly uncertain, fragmented and complex (geo)political, economic and social context. By highlighting key priorities, this brief puts an emphasis on some of the key dimensions and principles that should guide broader MFF discussions, and the design of the global Europe fund / instrument (of which the successor EFSD+ will be an integral part). First, the simplification agenda should not focus only on merging and streamlining instruments but also their processes downstream, for implementing partners to deploy them efficiently and effectively. Second, whilst there is a common agreement that the next EU budget should be more flexible and agile, the notion of predictability for implementing partners but also partner

countries should be carefully addressed. Third, the EU and its member states should take the opportunity of the MFF discussions to better draw linkages between the EU's internal and external policy objectives and instruments (the European competitiveness fund and global Europe fund). Progressing on these issues will be of utmost importance; while the European economy stagnates, much of the world grows. As Draghi argued: "[speed, scale and intensity will be essential](#)".

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