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The European financial architecture for development in a changing world

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The European financial architecture for development (EFAD) aims to improve the coordination, coherence, inclusiveness, visibility and efficiency of European investments outside of the EU, strengthening their policy direction and increasing their impact, particularly in the world's most vulnerable regions. The need for a stronger EFAD has grown more urgent, as global discussions on issues like climate change, debt crises and food insecurity increasingly highlight the financing gap as a key challenge.

In this paper, we provide a brief overview of Europe's financial architecture for development, outlining its purpose and objectives in a rapidly evolving context that has introduced new challenges and complexities. We analyse the current state of the EFAD, examining ongoing initiatives and the extent to which it is delivering on its objectives, particularly in terms of inclusiveness, resilience and sustainability. This includes a focus on challenging environments such as fragile countries and least-developed countries. We conclude by outlining key issues and recommendations to ensure that the EFAD is fit for purpose and delivers impactful and transformative investments in partner countries.

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Acronyms

CAF	Capital Adequacy Framework
CODEV-PI	Working Party on Development Cooperation and International Partnerships
CRM	Critical raw material
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
ECA	Export credit agency
ECOFIN	Economic and Financial Affairs Council
EDFI	European Development Finance Institutions
EEAS	European External Action Service
EIB	European Investment Bank
EIB GLO	EIB Global
EFAD	European Financial Architecture for Development
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
ELM	External Lending Mandate
EU	European Union
FICO	Working Party of Financial Counsellors
GTAI	Germany Trade & Invest
IA	Implementing agency
IEG	Independent Expert Group
JEFIC	Joint European Financiers for International Cooperation
LDC	Least developed country
MDB	Multilateral development bank
MFF	Multiannual financial framework
MIP	Multiannual indicative programme
NDICI-GE	Neighbourhood, Development and International Cooperation Instrument – Global Europe
PDB	Public development bank
PIP	Proposed investment programme

PN	Practitioners Network for development
RELEX	Working Party of Foreign Relations Counsellors
SDG	Sustainable Development Goal
TEI	Team Europe initiative
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UN	United Nations

Executive summary

The European financial architecture for development (EFAD) plays a key role in fostering coordination, coherence, inclusiveness, visibility, effectiveness and efficiency of European developmental investments outside of the European Union (EU) to enhance their policy steer and increase their impact. Combined with development objectives, the EFAD is also expected to play an important role in achieving the economic and geostrategic interests of the EU, as highlighted in the Global Gateway strategy and flagship projects, which aim to further support the European strategic public and private sector. Since 2021 and the last conclusions of the Council of the European Union on the EFAD, key international and EU processes have emerged beyond the NDICI-GE Regulation, with a direct impact on the EFAD. Yet, insufficient attention has been given by the EU to their overall consequences on the coherence of the EFAD. These raise numerous strategic questions for the EFAD, including inter alia:

- How can the EFAD best serve its core objective, the 2021 Council conclusions on EFAD and the parameters articulated in the NDICI-GE Regulation, whilst fostering the mobilisation on (private) development finance and pursuing the European strategic autonomy and competitiveness of its industry?
- What should be the strategic priorities of the EFAD in a landscape where not only EU development but also economic and geostrategic objectives have to be pursued?
- Given the need to build synergies between development and commercial approaches, how should the EFAD include in its framework the European private sector and public institutions in charge of promoting its interests, such as ECAs?
- Is the current EFAD governance well adapted to this new context that requires audacious and ambitious actions, and does it provide for the necessary strategic vision to make the EFAD ever more relevant and impactful?

Taking stock of the EFAD progress and achievement, as well as the current challenges and gaps, this brief put forward a set of recommendations on which EFAD endeavours could focus:

1. Increasing transparency and accountability by having the European Commission, EU member states, and their financial and development institutions provide more regular and detailed updates on their progress and investments.
2. Stimulating and coordinating governance and discussion fora on the EFAD, at strategic, policy and technical levels.
3. Enhancing the complementarity and coordination of all the EFAD actors, including in partnership with institutions supporting the private sector and the private sector itself.
4. Address debt and development vulnerabilities: Pay special attention to the debt and development vulnerabilities of fragile, conflict-affected, and lower-income countries, and prioritise their human development needs. Adopt a gender-sensitive and inclusive approach in all sustainable green and social investments.

These dimensions will be critical to help guide the financial allocations for the remainder of the 2025-2027 programming of NDICI-GE. Building on the insights of the mid-term review of the NDICI-GE and the 2021-2027 MFF, these dimensions will help prepare the next MFF and implement the Global Gateway and TEIs.

1. Introduction

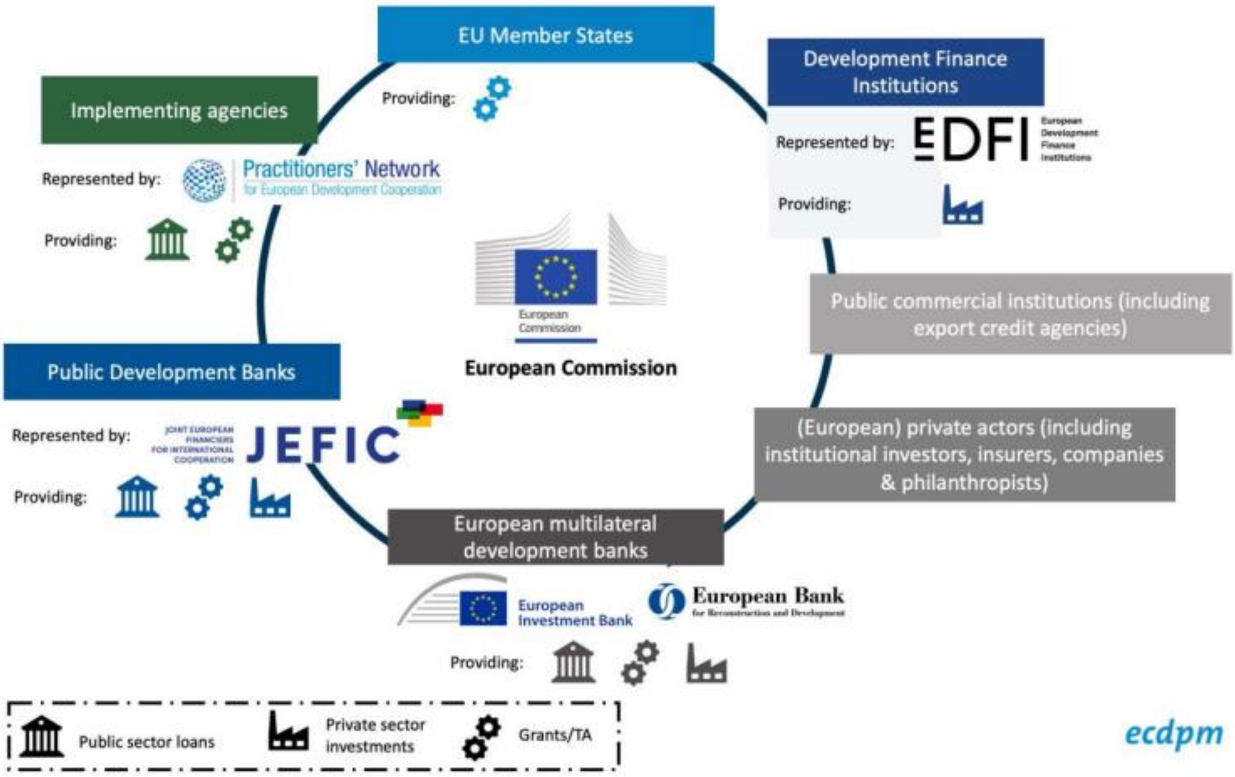
The current study provides a short background on the European Financial Architecture for Development (EFAD) and its raisons d'etre and objectives in a context that changed a lot, bringing along new challenges and issues. In doing so, it provides an overview of the state of play of the EFAD, looking at ongoing initiatives and the extent to which it is delivering against its objectives, particularly when it comes to inclusiveness, resilience and sustainability, including in challenging contexts such as in fragile countries and least-developed countries (LDCs). It concludes by highlighting a set of key questions and stakes that must be addressed to ensure that the EFAD is fit for purpose and delivers impactful and transformative investments in partner countries.

The EFAD aims to foster coordination, coherence, inclusiveness, visibility, effectiveness and efficiency of European developmental investments outside of the European Union (EU) to enhance their policy steer and increase their impact, particularly in "*the most vulnerable regions, notably the Least Developed Countries and countries in situation of fragility or affected by conflict, Africa, the Neighbourhood as well as in other priority regions severely affected by the pandemic*" (Council of the EU 2021).

The importance of, and rationale for, a strengthened EFAD have only become more prominent: in most fora, whether focusing on sustainable development or specific issues such as climate, debt crisis, food (in)security, etc., the financing gap (in volume and quality) is often at the heart of discussions, as a means to achieve the Sustainable Development Goals (SDGs) by 2030. This was reflected in key processes at the multilateral level, including the United Nations (UN) Common Agenda on Reforms to the International Financial Architecture, the G20 Independent Review of Multilateral Development Banks' (MDBs) Capital Adequacy Frameworks (CAF Report), the G20 Independent Experts Group Report of Strengthening the MDBs (G20 IEG), and the Summit for a New Global Financing Pact, which closely aligns with the Bridgetown Agenda 2.0, have put forward a number issues related to the need to reform the international financial system and architecture, including the need for inter alia innovative sustainable finance (guarantees, debt-for-climate swaps, climate resilient debt clauses), balance-sheet optimisation, and the mobilisation of private finance).

As part of this, the ability of international and European actors (development finance institutions - DFIs, public development banks - PDBs, implementing agencies - IAs, donors, the private sector including institutional investors, export credit agencies - ECAs, etc.) to coordinate and complement one another is seen as essential to deliver impactful and sustainable investments where they are needed and contribute to an inclusive, green and gender-sensitive economic recovery and development. Following the outbreak of the COVID-19 pandemic, the Team Europe approach has become central to the implementation of the EFAD, with the aim to promote further collaboration, coherence, efficiency and effectiveness of European aid (Council of the EU 2023, Jones and Sergejeff 2022, Karaki and Bilal 2023, Keijzer et al. 2021). Team Europe initiatives (TEIs) are, therefore, also one of the important dimensions to help operationalise the EFAD ambitions (Pleeck and Gavas 2023). Yet, the EFAD is still a work in progress, whose policy steer and implementation are continuously evolving and facing challenges in an effort to respond to development, climate and sustainability ambitions and broader European policy priorities and objectives in a rapidly evolving context and a world characterised by multiple crises (Bilal ed. 2023, Sherriff and Veron 2024).

Figure 1: Key EFAD actors



Source: From Karaki and Bilal 2023

Put in the context of the EU development landscape, the EFAD is an important element supported by and serving the objective of the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI-GE) Regulation 2021/947, and more specifically, its financial arm, the European fund for sustainable development plus (EFSD+). To fully respond to these objectives and challenges in the current NDICI-GE and the 2021-2027 multiannual financial framework (MFF), the EFAD needs to be "more effective, efficient, development-focused, coherent and visible, in line with the policy first principle and with the strategic interests and values of the EU, including democracy, human rights, gender equality and climate, as well as based on the needs of partner countries" (Council of the EU 2021), as also stressed by the European Parliament resolution of 24 November 2022 on the future European Financial Architecture for Development (European Parliament 2022).

But the EFAD is not only about better leveraging the EU budget for development finance. It is also about enhancing the coordination and complementarity of the EU member states institutions and instruments for development among them and with the EU institutions and instruments. In this respect, coalitions of development actors, such as the Association of European Development Finance Institutions (EDFI), the Joint European Financiers for International Cooperation (JEFIC), which regroup public development banks and institutions from France, Germany, Italy, Poland and Spain, and the Practitioner's Network for European Development Cooperation (PN), constitute important pillars of the EFAD in their own merit. So do development agencies. The enhanced coordination between the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), as well as other financial institutions, including EDFI, JEFIC and PN members, are key to the EFAD.

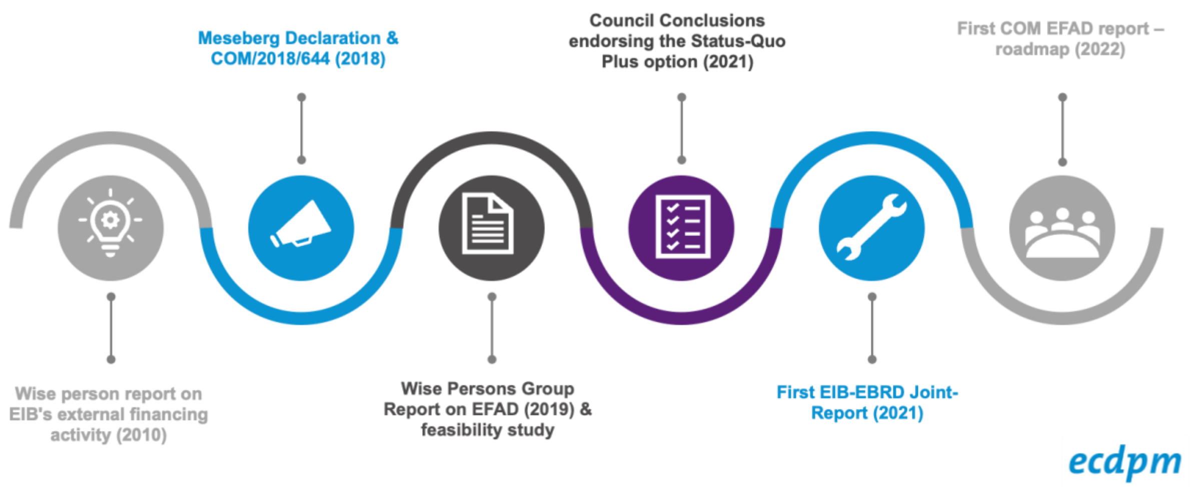
Combined with development objectives, the EFAD is also expected to play an important role in achieving the economic and geostrategic interests of the EU, as highlighted in the Global Gateway strategy and flagship projects, which aim to further support European strategic public and private sector (soft and hard) investments in partner countries (Karaki and Bilal 2022a, Olivié and Santillán O'Shea cords 2023, Teevan and Bilal 2023). With the universality of the SDGs, greater coordination, synergies and complementarities are also pursued between development instruments and other public instruments to support external trade and investments in a sustainable manner. This is the case, for instance, with the efforts to enhance coordination and complementarity between ECAs and DFIs and PDBs. In its Conclusions on export credits, the Council "observes that EU ECAs work closely with the private market and strive to cooperate more with each other within the EU, as well as with other providers of financial support (investments and development) in the EU", and "expresses support for analysing the opportunity of enhanced coordination and of an EU export credits facility as a complement to national export credit facilities, to development aid, and to investment support, both at national and EU levels and notably to the NDICI" (Council of the EU 2022). This endeavour has been reflected notably through the discussions around the feasibility study of an EU export credit facility and the mapping of external financial tools of the EU, the establishment on 18 January 2024 of the Commission Expert Group on Enhanced Coordination of External Financial Tools, and the following Commission Seminar on Enhanced Coordination between Export Credit Agencies and Development Finance Institutions in the context of Global Gateway, held in Brussels on 19 January 2024.

This study looks at the main progress related to the EFAD and analyses some of the key challenges and opportunities before providing concluding remarks and recommendations.

2. Evolutionary EFAD

Discussions on the EFAD are not new (Bougrea et al. 2022). They partly derived from the external lending mandate of the EIB and the establishment of the EBRD. The EIB is an EU institution founded on the basis of the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), fully owned by EU member states as sole shareholders and bound to respect EU law and policies, and the main EU financing institution carrying out investments outside the EU[1]. The EBRD was established in 1991 following the fall of the Berlin Wall as a new multilateral development bank with a view to foster economic transition in the European Neighbourhood regions (East and South), which unlike the EIB is not an EU institution but has a shareholding majority (54%) by the EU, the EIB and the EU member states. Both the EIB and the EBRD are key pillars of the EFAD, though based on different merits, focus, and institutional modalities. Following the 2008 financial crisis, considerations on the evolution of the EIB's external structure were explicitly articulated in the 2010 Wise Persons Report on the EIB's external mandate 2007-2013 Mid-Term Review, chaired by Michel Camdessus (the so-called 'Camdessus report'). The 2015 Addis Ababa Action Agenda on financing the 2030 Agenda for Sustainable Development and the 2016 so-called migration crisis following the war in Syria gave rise to the EU External Investment Plan and its European Fund for Sustainable Development (EFSD), a guarantee framework open to (preferably European) DFIs and PDBs beyond the EIB for private (non-sovereign) operations (Bilal and Große-Puppendahl 2018). The EFAD discussions, with some key milestones summed up in Figure 2, were particularly intense before 2021 so as to seize the 2021-2027 MFF as an opportunity to improve the current system, notably in terms of impact, effectiveness and additionality.

Figure 2: Main milestones of the EFAD process between 2010 and 2023



Source: From the authors

A salient point of the EFAD discussions emerged again in 2018, driven largely by France and Germany through the Meseberg Declaration and the European Commission Communication Towards a more efficient financial architecture for investment outside the European Union. The ambition is to make EU development finance more efficient and effective by tackling its complexity, fragmentation and overlaps, ensuring greater strategic coherence and complementarity, notably between the EIB and the EBRD, and enhancing its policy priorities

[1] This started with the following mandates: the External Lending Mandate Old Protocols (1978-2005), the Lome mandate (1985-1999) and the EIB External Lending Mandate renewed three times (2000-2020) and the EFSD+ Window 1 (2021-2027).

(the so-called policy-steer) (European Commission 2018). Building on the momentum, in 2019, the Council of the EU tasked a high-level 'group of wise persons' to identify clear options that could lead to a better EFAD. This was done through the Wise Persons Group Report, published in October 2019, which highlights a number of principles for a better EFAD - namely, one that is characterised by i) a strong EU policy steer; ii) a stronger coordination; iii) a more open financial architecture and iv) brand recognition, policy dialogue, and development impacts (in view and face of heightened geopolitical competition). Beyond these principles, the report put forward three options for the creation of a European Climate and Sustainable Development Bank that crystalised the attention around the EFAD (Bilal 2019): 1) Option one: put all the eggs in the EBRD basket; 2) Option two: a mixed bag of shareholders owning a new bank; and 3) Option three: put all the eggs in an EIB subsidiary basket.

Based on the recommendations, a feasibility study mandated by the Council of the European Union dived into the technical aspects underlying options 1 and 3 and added another one in the form of "status-quo plus", which essentially meant a more coordinated and efficient approach, building on the respective roles and mandate, comparative advantage and added value of each development finance institutions and strengthening the cooperation between the EIB and the EBRD (Gavas 2021, Gavas and Pérez 2022), with the additional anchor of the Team Europe approach.

Based on the analysis, the Council of the European Union of June 2021 opted for the status quo plus option, ending the battle or the beauty contest between the EIB and the EBRD in favour of a more cooperative approach (Bilal 2021a, Council of the EU 2021). Building on its 2019 EFAD Conclusions, the Council provided new guidance for strengthening the EFAD (Box 1). Broader and more recent EFAD endeavours are analysed in the next section.

Box 1: Selected key insights from the *2021 Council of the EU conclusions on the EFAD*

The 2021 Council of the European Union conclusions on the EFAD put specific emphasis on the following:

- The development objectives of the EFAD, i.e. its contribution to the SDGs, Paris Agreement and broader greener and more inclusive (gender and youth) endeavours, and the relevance of the mobilisation of public and private investments in the most vulnerable regions, notably the least-developed countries and countries in situation of fragility or affected by conflict, Africa, the Neighbourhood as well as in other priority regions severely affected by the pandemic.
- The ambition to make the EFAD more effective, efficient, development-focused, coherent and visible, in line with the policy-first principle and with the strategic interests and values of the EU, including democracy, human rights, gender equality and climate, as well as based on the needs of partner countries.
- The need to integrate the EFAD into EU external policy and the broader geopolitical landscape is characterised by increasing geo-economic and political competition, inter alia by financing sustainable connectivity. In this context, there is a recognition that the EFAD's objectives have become broader than only development objectives.

- The governance aspects, with a focus placed on the importance of strengthened political guidance by the Council, as well as coordination and policy steer by the Commission in implementing EU development policy, and the particular role of the then-upcoming NDICI – Global Europe EFSD+ strategic board, which include the European Commission but also EU Member States and the EIB and provides policy-steering ensuring that EFSD+ investments contribute to the strategic priorities defined by the Council, in close cooperation with the NDICI – Global Europe Committee.
- The further strengthening of strategic and technical coordination between the EIB and EBRD, building on their complementarities and in cooperation with the European development banks and financial institutions in a Team Europe approach. In this regard, there are particular benefits arising from cooperation arrangements, co-financing and country or regional risk-sharing platforms, as well as the development of mechanisms to harmonise strategies, standards and mutual reliance and recognition procedures.

The further coordination of EU member states on common positions in multilateral development fora and institutions in order to speak with a more coherent EU voice where appropriate, in line with the Team Europe approach at country, regional and global level.

In response to the call for action by the Council, the Commission established a roadmap for an improved financial architecture aims to broaden the impact, efficiency, strategic direction, coordination, inclusiveness and visibility of the EFAD, based on four work strands: 1) affirming a strong EU policy steer, to maximise the development impact of EU activities and their alignment with EU strategic interests, 2) promoting enhanced coordination, and increase the coherence of the EU action, drawing on the diversity of all its actors, 3) building a more inclusive EFAD, enabling the participation of all interested development finance institutions, including smaller ones, and 4) ensuring increased visibility and influence of the EU and its Member States in a Team Europe approach, notably with the Global Gateway (European Commission 2022). The Commission reports annually to the Council on the roadmap implementation progress and evolution. The EIB and EBRD also report annually on their cooperation.

3. A rapidly evolving context

Since 2021 and the last conclusions of the Council of the European Union on the EFAD, which took place during the COVID-19 crisis, key international and EU processes have emerged beyond the NDICI-GE Regulation, with a direct impact on the EFAD, including:

1. The TEIs, operationalising the Team Europe approach, are born out of the COVID-19 crisis and the need to better leverage EU and EU member states' resources in a coherent, efficient and effective manner to deliver impactful interventions (in line with the enhanced coordination promoted by the EFAD). Though not part of the NDCI-GE regulation, it is seen as one of the main operationalisation modalities of the said regulation.
2. The Global Gateway strategy is a new strategic initiative by the European Union to foster development in a more geostrategic and self-interested manner. In an increasingly

geopolitically fragmented and tense global context, it is presented as a positive offer by the EU to boost smart investment in quality infrastructure development (energy, digital, transport) and health and education. The operationalisation of the Global Gateway, around flagship projects, focuses on mobilising public and especially (European) private investment to help achieve the SDGs and enhance the EU's open strategic autonomy and global competitiveness.

3. MDB reforms, following the G20, UN and other international initiatives such as the Summit for a New Global Financing Pact, put further emphasis on the need for improving the firepower and quality of the MDBs and fostering more cooperative approaches and partnerships between MDBs - as promoted by the EFAD.

4. The Critical Raw Material Act has led to a stronger strategic emphasis on the access to and transformation of critical raw materials (CRM), a priority now included in the EFSD+ strategic orientations, to help secure EU strategic autonomy and its access to the minerals needed for its green and digital transition.

5. The emphasis on European ECAs, with the feasibility study of an EU export credit facility, the mapping of external financial tools of the EU, and the set-up of the Commission Expert Group on Enhanced Coordination of External Financial Tools, which held its first meeting on 18 January 2024, highlight the EU's interest in tailoring public instruments that are better fit to engage the European private sector and can complement development finance.

While each of these evolutions entails some implication for the EFAD, insufficient attention has been given by the EU to their overall consequences on the coherence of the EFAD, its objectives, role and modus operandi underlying its implementation. These raise numerous strategic questions for the EFAD, including inter alia:

- How can the EFAD best serve its core objective the 2021 Council conclusions on EFAD and the parameters articulated in the NDICI-GE Regulation, including investing in LDCs, fragile states and other vulnerable and complex contexts, focusing on human development and poverty eradication, whilst fostering the mobilisation on (private) development finance and pursuing the European strategic autonomy and competitiveness of its industry?
- What should be the strategic priorities of the EFAD in a landscape where not only EU development but also economic and geostrategic objectives have to be pursued?
- Given the need to build synergies between development and commercial approaches, how should the EFAD include in its framework the European private sector and public institutions in charge of promoting its interests, such as ECAs?

These policy evolutions take place in an international context characterised by heightened geopolitical tensions, new conflicts (notably in Ukraine and Gaza), contested narrative on Western values and a new decolonising agenda by the 'Global South', increased debt vulnerabilities in many developing countries, and rising poverty (about 40% of the low-income countries are poorer than before the COVID-19 pandemic). Strengthening the EFAD should consider these changes and integrate them to remain relevant and even more impactful.

The next Section dives into the main EFAD initiatives that took place in the last couple of years, highlighting some of the key challenges and opportunities that need to be addressed to have an EFAD that delivers on its objectives, as set by the 2021 Council of the European Union's Conclusions.

4. State of play of the EFAD in the current EU policy landscape

The European Union and its member states acknowledge that improved and more systemic complementarity, coordination and cooperation between donors, their implementing agencies and financial institutions for development are necessary for the EFAD to catalyse public and private initiatives and finance at scale and for greater impact aligned to the SDGs. As a result, they have been actively working to strengthen the EFAD in recent years in order to increase European development and climate finance, particularly in terms of volumes and structures. This section provides an overview of some of the main initiatives related to the EFAD that were developed in the last couple of years, including i) those anchored in the NDICI-GE Regulation, notably the EFSD+; ii) additional implementation modalities born post NDICI-GE, e.g. TEIs and Global Gateway flagships; and iii) recent coordination modalities. These should be understood in the context of the 2021 Council of the European Union's Conclusions summarised in Box 1 above.

The MFF 2021-2027 and the introduction of NDICI-GE/EFSD+, approved by the Council of the European Union, provided an opportunity and played a key role for the EU and its member states to strengthen the EFAD. Implementation modalities such as the TEIs were put forward to respond better to the impact of the COVID-19 crisis, which highlighted the need for strengthened cooperation between European actors embodied in the Team Europe approach. In addition, the Global Gateway led to the identification of flagship projects as an additional implementation modality, often combining EU and some of its member states' funds, to mobilise public and (European) private investment in partner countries to achieve development but also geostrategic and economic objectives. The European private sector is a key actor in the Global Gateway ambitions. Last, in parallel to these processes and modalities, several initiatives aimed at strengthening the coordination between European actors have taken place in the past few years. This Section presents a bird's view of each of these elements, highlighting their key characteristics, state of play and challenges.

4.1. EFAD in NDICI-GE: the European Fund for Sustainable Development Plus (EFSD+)

a) Key characteristics

Born in the context of NDICI-GE and serving the Regulation's policy objectives (Box 2), the EFSD+ is the main financing instrument of the EU external action for European MDBs, DFIs and PDBs.

Box 2: Main objectives of the EFSD+, as per Art.31 of *NDICI-GE Regulation*

The main objectives of the EFSD+ are to contribute to:

- sustainable and inclusive economic, environmental and social development
- socio-economic and environmental resilience in partner countries with a particular focus on the eradication of poverty
- reduction of socio-economic inequalities, sustainable and inclusive growth, climate change adaptation and mitigation, environmental protection and management, the creation of decent jobs, the promotion of human rights, gender equality and the empowerment of women and young people
- addressing specific socio-economic root causes of irregular migration and root causes of forced displacement

Special attention shall be given to countries identified as experiencing fragility or conflict, LDCs and heavily indebted poor countries, including by providing support for institutional capacity building, economic governance and technical assistance.

The design and implementation of the EFSD+ involve a stronger policy steer of the European Commission and EU Member States through the EFSD+ Strategic Board to ensure that investments are aligned with first the NDICI-GE Regulation objectives and second the EFSD+ strategic orientations, which apply indistinctively to sovereign and private sector operations. These are based on the i) EU Green Deal, ii) Global Gateway and iii) Jobs and growth. The open architecture investment window is further operationalised by six (sectorial) investment windows:

1. Connectivity – Sustainable Energy, Transport, Digital;
2. Micro, Small and Medium Enterprises (MSMEs) Financing;
3. Agriculture, Biodiversity, Forestry, and Water;
4. Sustainable Cities;
5. Human Development;
6. Sustainable Finance.

In 2023, CRM was also integrated into the EFSD+ strategic orientations though there was no consensus in the Strategic Board, neither a dedicated investment window nor an existing investment window accommodating CRM objectives.

From an operation perspective, the EFSD+ plays a key role in streamlining development finance instruments into one single framework and in doing so, fosters coherence and potential synergies between investment operations. The EIB, as the EU bank, benefit from a dedicated window for its sovereign and non-commercial sub-sovereign operations. As such, it is a key pillar of the EFSD+ and EFAD ambitions. The EIB fully aligns with the EU's values, standards, and commitments and follows the EU's policy-first approach. In addition, the open architecture window for non-sovereign and commercial sub-sovereign operations fosters the EFAD's ambition to be more inclusive, with +20 DFIs/PDBs as implementing partners, including smaller actors. Last, another important feature of EFSD+ is the 'policy discount' for the guarantee (i.e., a more attractive price for the guarantee upon fulfilment of specific EU policy objectives by the DFIs/PDBs) also contributes to the EFAD's ambition to reach higher development impacts in the more challenging geographical (LDCs, fragile countries) and sectoral/thematic contexts (gender, migration, etc.).

b) Operationalisation

The sub-section provides an overview of the state of play of EFSD+ implementation since 2021, up to November 2023.

- EFSD+ Investment Window 1 (EIB exclusive window for sovereign operations): 44% of approved operations are supporting infrastructure-oriented interventions under the header of Connectivity, i.e. in the Energy, Transport and Digital sectors, 28% are supporting sustainable agriculture and biodiversity, 13% in human development and 10% are support of MSME and the private sector.
- EFSD+ Investment Window 2 (EIB exclusive window for sub-sovereign operations): The window was signed in 2023 and is to be deployed in 2024.
- EFSD+ Investment Window 3: Open architecture window: more than 60% of the total budget of the open architecture window is allocated to portfolio guarantees covering connectivity-related operations and private sector development, followed by 15% in natural capital and 11% in human development. About 10% of these guarantees target LDCs, fragile states and highly indebted countries (European Parliament 2023).
- EFSD+ Investment Window 4 and Trust Fund (private sector operations in ACP regions) were signed in 2023 and are being deployed.
- Blending: i) 64% of approved amounts are supporting interventions related to infrastructure in the sectors of transport (48.17%), energy (14.24%) and Water and sanitation (11.91%); ii) 8.65% of funding is allocated to the support of MSME/Private Sector operations; and iii) less than 5% go into operations related to human capital (3.17%), Urban development (0.91%) and the social sector (0.52%).

More broadly, the experience under the EFSD, the predecessor of the EFDS+ under the previous MFF, shows that the share of investments going to social sectors was low (3% for blending and 30% for guarantees, explained by the COVID-19 crisis, where a few guarantees were repurposed). Likewise, the share of EFSD investments in fragile countries under guarantees did not exceed 10% (while it reached around 36% under blending operations) (European Parliament 2023).

c) <u>Challenges of the EFSD+</u>

This sub-section enumerates the main challenges linked to the EFSD+ implementation and relating to the EFAD objectives, as underlined in the 2021 conclusions of the Council of the European Union on the EFAD.

1. While there is a policy steer, the EFSD+ must respond to a wide range of objectives. The primary ones are those articulated in the NDICI-GE Regulation. The EU Green Deal, the Global Gateway, and the Critical Raw Material Act have since been additional strategic ambitions, whose status has nonetheless not been fully clarified in the strategic orientation and operationalisation of the EFSD+.
2. Even with policy discounts, it is not clear how the EFSD+ will succeed in pushing financial institutions for development to engage in the more challenging contexts - as shown by the share of investments going to human development and LDCs and fragile countries - which is a goal of the EFAD. Many financial institutions argue that the policy discount, the guarantee pricing and the level of guarantee provisioning rates (fixed at 50% for non-sovereign operations) are not sufficient to generate investment in perceived risky contexts, which often lack bankable projects. Blended finance and technical assistance might be more appropriate in such contexts.
3. Although the EFSD+ investments are supposed to contribute to or be complementary and coherent to TEIs, it is not clear the extent to which extent the operationalisation of EFSD+ proposed investment programmes (PIPs) submitted by financial institutions for development can be effectively aligned to specific TEIs' implementation, and how coordination and synergies are happening between investments and policy reforms type of support led by implementing agencies and donors, which is a crucial element of the EFAD.
4. While the EFSD+ is supposed to mobilise European private investments and engagement in partner countries, it is not clear how it will do that as investments provide support and mobilise investments mostly from the international and local private sector, in an open and non-discriminatory basis (Karaki and Bilal 2022). Moreover, the bulk of the investment mobilised under the EFSD+ will be public for EIB sovereign operations.
5. The implementation of the open architecture window has been extremely slow in view of the current challenges and crises the world is facing. This is an issue that the EFAD must learn from to build up capacities to respond fast and adapt to new contexts and crises.
6. Last, even though the EFSD+ is more inclusive, most of the guarantees and blending are implemented by larger financial institutions (EIB, EBRD, AFD and KfW), and more efforts could be done to better inclusion, including by incentivising and facilitating partnerships and collaboration among financial institutions for development. While EDFI and EDFI Management Company have proved to be instrumental in fostering greater cooperation among European DFIs, JEFIC and calls for enhanced coordination among the EIB and EBRD have not yet translated into much more joint efforts under the EFSD+, let alone among EDFI-JEFIC-EIB-EBRD actors.

4.2. Additional implementation modalities

4.2.1. Team Europe Initiatives

i) Key characteristics

Team Europe approach and specific TEIs emerged in the context of the EU's collective response to COVID-19 as an expression of this EU collective ambition as it seeks to increase the visibility and impact of Europe in support of partner countries (Jones et al. 2022). TEIs are another tool or implementation modality aiming to serve the NDICI-GE policy objectives and quantitative targets (Box 3).

Box 3: Quantitative targets of NDICI-GE

Targeted share of investments for selected issues:

- 30% climate objectives
- 20% social inclusion & HD
- 10% migration
- 85% gender relevant
- 5% gender as the primary objective
- ⩾93% ODA

The rationale behind the TEIs is to work better together with EU institutions and member states, and across institutions: development agencies and financial institutions for development and private sector for greater coherence, synergy and impact of collective European development endeavours (Karaki and Bilal 2023). In doing so, the objective is to achieve higher transformative and systemic development impacts and boost the EU's visibility and influence in a geopolitically fragmented context whilst directly supporting the EFAD ambitions.

ii) Operationalisation

More than half of national and regional TEIs are in Sub-Saharan Africa, followed by Latin America and the Neighborhood (whose share stood at approx. 15%). The top three sectors (in number of TEIs) targeted by national TEIs are 1) Green Deal-specific actions (in addition to transversal green and climate objectives across all TEIs), 2) sustainable growth and 3) human development, which is similar to regional TEIs except that sustainable growth is replaced by science, technology innovation digital (EC 2023). The number of TEIs involving one or more European DFIs stood at 144 (out of 164 TEIs) (EC 2023). Last, 42% of national TEIs target LDCs, and 17% focus on fragile countries (according to the World Bank's classification).

iii) Challenges

1. Some TEIs are more of a compilation of existing projects of individual donors rather than a well-coordinated approach with space for joint programming;

2. Coordination implies transaction costs, which may deter actors such as financial institutions for development from strongly engaging in these - although as experience and lessons arise from the Team Europe exercise, a higher degree of efficiency and effectiveness should take place;
3. Incentives, tools and priorities do not necessarily align between different actors, making it hard to move towards joint approaches, especially across actors such as IAs, DFIs and PDBs (Bilal and Karaki 2022);
4. A recent report from the European Court of Auditors on the programming of the NDICI-GE also highlighted that the country's multiannual indicative programmes (MIPs) did not demonstrate that the selected sectors of intervention were those in which EU funding could achieve high impact - putting in question the potential for impact of the TEIs which are based in part on the MIPs (European Court of Auditors 2023a).

4.2.2. Global Gateway flagship initiatives

i) Key characteristics

Presented as the EU offer to developing economies, the Global Gateway embodies a new, more assertive and ambitious interest- and value-driven EU approach to foreign policy and external investment for sustainable development. In doing so, its objectives go beyond development cooperation to include geostrategic and economic interests. This comprehensive approach includes a focus on mobilising public investments and involving the European private sector both at the institutional level, through the Business Advisory Group and at the operational level, through Global Gateway flagship projects, which should also provide market opportunities for European businesses. These focus mainly on quality (hard and soft) infrastructure, covering 1) the digital sector, 2) climate and energy, and 3) transport, as well as 4) health and 5) education and research.

Mobilising European private sector actors requires adequate tools and instruments, including beyond development cooperation instruments, which may not always be adequate and/or constrained by principles and rules (e.g. untied aid) to directly support European private sector and economic interests (Karaki and Bilal 2022a, Bilal 2021b). To address this issue, the European Commission has conducted i) a mapping of financial tools that support the implementation of external EU policies and have the potential to strengthen the global competitiveness of EU companies and ii) a feasibility study on options for an EU Export Credit Facility. In this context, part of the discussion has been focusing on strengthening the coordination between DFIs and ECAs. While these two types of institutions have different objectives, business models and requirements, ensuring coordination could contribute to a whole-of-EU-government type of approach and investments that are more impactful on the ground.

ii) Operationalisation

A total of 225 flagships have been prioritised by the EU and its member states under the Global Gateway for 2023 and 2024 (87 in 2023 and 138 in 2024). About half of these are focused on climate and energy, 22% on transport infrastructure and 13% on digital, while health and education account for 9% and 7% of the total number of flagship projects, respectively, and far less in value terms, though specific details are not communicated (Teevan and Bilal 2023).

iii) Challenges

Given the obstacles to developing instruments and tools providing European public financial support to European businesses (this includes inter alia: internationalisation of businesses is a competence of EU Member States, constrained European budget and the potential competition between national ECAs and with a potential European export credit facility), Global Gateway flagships projects are largely financed at the EU level by the EFSD+ when it comes to European funding. This means that it is bound by the principles and development objectives of the NDICI-GE Regulation. It must respect the principles of untied aid of the OECD's Development Assistance Committee (OECD DAC) and, in practice, tend to promote the local private sector's involvement in development rather than European interests (Craviotto 2022, Karaki and Bilal 2022a). This represents a major constraint for the realisation of Global Gateway's objective to involve and create direct market opportunity for the European private sector.

Given the debt vulnerability of many fragile and low-income countries, it is likely that 83% of Global Gateway flagship projects on infrastructure will prioritise countries with a stable and relatively more mature market, where investment risks and market returns are more optimal. The focus risks to be less on development additionality than on economic development and the achievement of geostrategic objectives. This is likely to become an issue with the implementation of the EFSD+, including access to CRM, given the imperatives of the NDICI-GE development cooperation objectives.

While some of these objectives overlap, some are also distinct in that they fall into pure development cooperation type of approach (NDICI-GE TEIs) or mix development with economic and geostrategic interests. Striking the right balance and complementary will require careful policy steer from the European Commission and the EU member states.

Moreover, the articulation and complementarity of the Global Gateway flagship projects and Team Europe Initiatives should be more clearly articulated to ensure transparency and efficiency in the NDICI-GE strategic implementation.

4.3. Coordination initiatives for a strengthened EFAD

For an effective EFAD, enhanced coordination among EU and EU member states' institutions and among a range of development and economic/financial actors is essential. This section provides a snapshot overview of the EFAD progress among financial institutions for development, essentially articulated around i) the EIB-EBRD and ii) the following European networks: EDFI, JEFIC and PN. These efforts respond in part to the 2021 Council of the European Union's Conclusions on the EFAD, which state clear objectives when it comes to enhancing the coordination between European development actors, as summarised in Box 4.

Box 4: Selected *2021 Council of the European Union's Conclusions on the EFAD* relating to the coordination between EIB, and EBRD and across European development actors (financiers but also implementing agencies)

a) EIB-EBRD coordination

- Need for the EIB and the EBRD to work together more effectively and efficiently, building on their complementarities while strengthening their cooperation with the European development banks and financial institutions in a Team Europe approach.
- The EIB and the EBRD should continue the systematic deepening of their coordination both at strategic and technical levels and present a first report on the actions undertaken by the Council by November 2021, followed by regular progress updates to the Council configurations of Economic and Financial Affairs and Foreign Affairs (Development)
- The EIB and the EBRD should keep improving/optimising their business models, whilst facilitating/fostering cooperation activities with European development banks and financial institutions under a Team Europe approach.

b) Development actors' coordination

- The EFAD should be based on an open, collaborative and inclusive architecture, working with all European development banks and financial institutions, building on their respective country, sectoral or financial expertise, value-added and resources, and on the safeguarding of a level playing field, also in view of crowding in private investments.
- Importance of strengthening cooperation among European development banks, financial institutions and implementing actors of different sizes, profiles, and strengths in order to maximise development impact and additionality, to develop tools to support inclusive partnerships with smaller development institutions, and to make best use and further develop instruments such as cooperation arrangements, co-financing, risk-sharing, and mutual reliance and recognition procedures.

c) Coordination for a coherent voice in multilateral fora

- The Commission, the European External Action Service (EEAS) and EU Member States should further coordinate common positions in multilateral development fora and institutions in order to speak with a more coherent EU voice where appropriate, in line with the Team Europe approach at country, regional and global level.

d) Integrate the EFAD in EU external economic policy

- Need to integrate the EFAD in EU external policy in light of the increasing geo-economic and political competition.

e) Coordination and policy steering by the Commission

- Importance of strengthened political guidance by the Council and coordination and policy steering by the Commission in implementing EU development policy.
- Importance of the Commission services and the EEAS, together with the member states and their development banks and financial institutions, as well as the EIB and the EBRD, to strengthen the Team Europe approach and to increase, both in the EU and in partner countries, the visibility of joint engagement in a strategic manner.
- Role of the Commission in establishing a roadmap for the implementation of the objectives and recommendations contained in the Council conclusions on EFAD.

4.3.1. EIB Global-EBRD coordination

i) Key progress

The EIB and EBRD have strengthened their cooperation through various means. First, as required by the 2021 Council Conclusions, they have produced a joint report in 2021 presenting the main progress achieved: a strengthened high-level dialogue building on biannual joint senior management meetings and the development of high-level working groups, supporting the development of co-financing opportunities, collaboration on advisory services, and research and analytics. EIB and EBRD also signed a "Framework Project Cooperation Agreement" to foster mutual reliance. Though this is expected to facilitate collaboration between the institutions, the agreement falls short of a formalised division of labour between the two banks (Gavas 2022). The EIB-EBRD produced a technical joint report on their activities in 2022 and simple presentations by the EIB and the EBRD in 2023.

At the individual level, the EIB launched the EIB Global branch in 2021, in charge of outside-EU operations. In 2022, EIB Global signed € 10.8 billion of signed investments in 2022, including about half of operations coming from EIB's own risks. In 2023, EIB Global invested €8.4 billion in developing countries (amounting to 9.6% of the EIB overall signed investments), with nearly half of it in the most vulnerable countries, and contributing to mobilising €27 billion of investment for Global Gateway initiatives. Since the start of the war, the EIB support to Ukraine amounted to €2 billion.

With EIB Global, the EIB aims at maximising the development impacts and visibility of European investments, notably through i) the creation of the Board Advisory Group to guide the EIB Board and help define policies and strategies; ii) the strengthening of its presence in partner countries starting with the regional hub in Kenya, and iii) the deepening of partnerships as part of Team Europe. That said, some of these measures must still deliver on their promises (see Section IV. Governance of the EFAD). Last, EIB Global also published the Global Strategy Roadmap in 2023, highlighting the main areas of focus in the next few years, which includes specific attention to the EFAD, where the Bank commits to further strengthen its "contribution to the EFAD through dedicated strategies, coordination efforts, joint dialogue, visibility and synergies with other actors, including the EC, the European External Action Service (EEAS), the European Bank for Reconstruction and Development (EBRD) as well as other European Development Finance Institutions (DFIs)" (EIB 2023:4).

Put in the context of EU development policy, EIB Global is expected to play a key role in the EFSD+, through its contribution to the Strategic Board, and the implementation of the EFSD+ Investment Windows 1, 2 and 4. Importantly, the modus operandi and, notably, the three-step process of upstream coordination (at the pipeline stage, through NDICI-GE Regulation Article 19 consultation, and via eligibility assessment) have been put in place to ensure a stronger policy steer of the Commission to make sure that EIB's investments contribute to key EU policy objectives and development impacts. In terms of collaboration with other financial institutions for development, the EIB i) developed a few PIPs in collaboration with other European and multilateral PDBs and DFIs (GGBI, Boost Africa, RISE, etc.) as part of the EFSD+, ii) is part of joint initiatives, including the mutual resilience initiative and the European financing partnership (see more information in the sub-section below). At the European member states' level, the EIB has put in place the Partnership Platform for Funds for a decade, facilitating its collaboration with donors in an efficient manner (streamlined procedures) (Karaki and Bilal 2022b). This is, to some extent, similar to the multi-donor trust funds of the EBRD.

The EBRD provided record investments in 2022 and 2023, at €13.1 billion (including more than €2 billion for Ukraine), with 80% of its investment focusing on the private sector, mobilising a total of €26.2 billion of investment in 2023. The firepower power of the EBRD has been increased with an increase in paid-in capital of €4 billion in late 2023. The EBRD has also been active in the past few years to keep improving its business model, including the mobilisation of private investments. This can be illustrated by two concrete examples: i) its partnership with the ILX fund (which facilitates European private sector investments - from institutional investors - in SDGs and Climate in emerging markets) as part of the EFSD+, whereby EBRD attracts ILX investments in specific projects (EBRD 2023c); ii) its work on mobilising the insurance market - notably in the context of the Russian aggression in Ukraine - which translate into a concrete instrument: the EBRD unfunded risk participation. In the context of Ukraine, EBRD has also been active in forging (multilateral) partnerships, such as the EBRD-G7-DFI-EDFI Ukraine Investment Platform, which aims to invest in Ukraine's reconstruction and development. However, the EIB is not part of the partnership, opting for a bilateral solution, showing that even though there is progress, more can be done to foster collaboration between EIB and EBRD. But both the EBRD and the EIB participate in the Multi-agency Donor Coordination Platform for Ukraine. The EIB and EBRD also actively contribute to the MDBs' working group and coordination efforts.

ii) Challenges

EIB-EBRD coordination is challenged by a lack of clear division of role and labour: the nature, mandate, business models and modus operandi of the two institutions are different. While both contribute to serving EU objectives, the EIB is an EU institution fully owned by the EU Member States, enshrined in the Treaty of the EU, and subject to all standards and policy requirements of the EU, which is not the case for the EBRD. Given these differences, there is merit in explicitly assessing the respective role, strategic comparative advantage, added value and complementarity of the EIB and the EBRD, including in relation to other European financiers. Boosting EIB-EBRD coordination and complementarity is a declared priority for their respective new Presidents. The EU member states should take advantage of these potentially new dynamics to provide stronger strategic policy guidance to that end in the context of a strengthened EFAD.

EIB Global remains on the balance sheet of the EIB, which means that it applies the same risk framework as the EIB Group and also that any financial returns are on the EIB Group balance sheet and not automatically reinvested in EIB Global operations. These may constrain efforts towards pushing the Bank to take more risks and innovate to invest in challenging contexts, including LDCs and fragile states.

Yet, the single EIB entity can also facilitate the EU's internal dynamics (e.g. in terms of enhancing the EU competitiveness, resilience and strategic autonomy) with its external relations (e.g. access to green energy and CRM, diversification and resilience of its international supply chains, international development aspirations), suggesting the need to harness EIB Global approaches and operations to EIB strategy and operations within the EU. EU member states, as sole shareholders of the EIB and members of the Council of the EU, can actively steer the EIB and the EIB Global branch towards greater coherence and complementarity of the EU's domestic and international sustainable investment agenda.

In this process, it is worth noting that EIB Global remains largely influenced by decisions stemming in many EU member states from their Ministry of Finance, which do not necessarily have the same development insights, aspirations and priorities as Ministries of Foreign Affairs and development to guide EIB Global's activities, and may have a lower appetite to risks and SDGs impact for the EIB. In practice, the European Commission also exerts an increasing influence on EIB Global's choice of operations.

4.3.2. European Development Finance Institutions, Joint European Financiers for International Cooperation and the Practitioners Network

i) Key progress

EDFI, JEFIC and PN are key building blocks of the EFAD, and their collaboration is of prime importance for a strengthened and more impactful EFAD. They represent the interests of DFIs, PDBs and implementing agencies respectively. While EDFI and PN are over a decade old, JEFIC was set up only in 2022. Their objectives consist mainly in promoting coordination and harmonisation of processes and standards, mutual reliance, joint cooperation and financing, etc.

EDFI is one of the most sophisticated platforms, serving DFIs' interests with a view to fostering collective actions between DFIs without leading to coordination fatigue or highly bureaucratic procedures. These include inter alia:

- EDFI Management Company (an entity established by EDFI for co-financing, risk sharing and blended finance facility management)
- European financing partnership (co-financing vehicle between DFIs and the EIB)
- Interact Climate Change Facility (co-financing vehicle targeting climate investments)
- EDFI EFSD+ proposals (seven approved proposals for a total volume of guarantee of EUR 1.28 billion)

The principles and objectives of JEFIC also relate closely to those of the EFAD, namely i) adopting a Team Europe approach to better coordinate European efforts and actors; ii) fostering mutual trust, transparency and visibility, allowing to identify opportunities to work in partnerships and; iii) promoting pragmatism and pooled resources with a view to boosting co-financing and joint implementation. A concrete illustration of such cooperation is the Mutual Resilience Initiative, which serves as an effective cooperation framework between the French development agency AFD, the German promotional bank KfW and the EIB. A concrete illustration of such cooperation is the decade-old Mutual Resilience Initiative, recently renewed and enhanced, which serves as an effective cooperation framework between the EIB.

Beyond internal JEFIC collaboration, there are also concrete initiatives where EDFI and JEFIC members come together in a collective effort to invest in given sectors and countries. This is, for instance, the case of several EFSD+ proposals, which feature members from both groupings, such as the Global Green Bond Initiative. The latter involves the following European financial institutions: EIB, EBRD, the Spanish Agency for International Development Cooperation (AECID), the Italian Cassa Depositi e Prestiti (CDP), KfW and the French DFI Proparco. More broadly, coordinating investments focusing on the private sector (led by DFIs) and the public sector (led by PDBs) can help maximise development impact and economic transformation.

While a lot of attention is often paid to financial institutions for development, implementing agencies have extensive experience in partnering. In this context, the PN plays a particularly important role, representing most European implementing agencies and fostering exchange, coordination and harmonisation between European development cooperation organisations. As a result, a number of joint implementation projects and memoranda of understanding (MoUs) between implementing agencies have been developed in the past few years, including through the TEIs.

Beyond the PN internal collaboration, there is also an endeavour to better work together between the three networks (EDFI, JEFIC and PN), as illustrated by the EDFI-JEFIC-PN statement of intent, which aims to i) promote the Global Gateway strategy and TEIs, ii) generate a more sustainable impact; and iii) serve the ambitions of the EFAD. However, despite the statement of intent and a few meetings, there has not been much progress in terms of operationalisation . Instead, there seems to be more progress between DFIs and PDBs in working better together, though on an ad-hoc basis, and between PDBs and implementing agencies (see subsection below on the challenges).

iii) Challenges

The challenges affecting the collaboration between implementing agencies, DFIs and PDBs have recently been studied and can be summed up as follows:

- Institutional and legal challenges
  - Asymmetry in objectives and incentives
  - Lack of geographical, thematic and sectoral alignment
  - Differences in legal frameworks
  - Asymmetry in size and power relations
- Challenges relating to resources and capacities
  - Different languages and capacities and insufficient interconnections across networks
  - Different tools and resources

- Additional time and resources spent
- Lack of local presence of DFIs

- Challenges related to processes
  - Differences in procedures and speed
  - Different time horizons
  - Linking technical assistance to investments, avoiding tied aid
  - Lack of attention to local ownership and capacity building of the local ecosystem

In the context of the EFAD, challenges related to insufficient policy guidance, complementarity and coherence of these development (financial) actors in their EU-related external actions, notably in the context of the EFSD+, TEIs, Global Gateway and other complementary activities. The fragmented nature of the governance of the EFAD and too often fragmented oversight bodies at the EU member states level perhaps remain one of the key challenges to overcome for more effective complementarity of actions to achieve often still poorly articulated concrete operational objectives of the EFAD and EU joint actions.

4.3.3. Coordination for a more coherent voice in multilateral fora

The EU and, in particular, its member states are active actors in the multilateral agenda, including the one related to the international financial system and cooperation. The initiatives around the EFAD do not take place in a vacuum - they should also be understood in the global landscape and policy processes: international financial architecture and MDBs reform process, with EU member states as shareholders/board members (WB/IMF, MDBs/RDBs), UN system/agencies, OECD/DAC, international fora (e.g. COP/climate, health, etc.), requiring EU coordination process on strategies and instruments (e.g. SDRs, debt-swaps, etc.). As stressed by the 2021 Council Conclusions on EFAD and the Commission Roadmap, the EU should better coordinate its common positions at the global, regional and country levels so as to speak in a more coherent voice for greater impact.

Regarding Council formations, the European Commission and the High Representative/Vice President (HR/VP) support the request voiced by several Member States that Council discussions on development finance should more regularly involve the two relevant configurations: the Economic and Financial Affairs Council (ECOFIN) and the Foreign Affairs Council (FAC - development formation). This would ensure that all the relevant angles (financial sustainability, foreign policy and the development impact) are taken into account on issues related to development finance and would facilitate the building of an EU position. This can help the EU speak with one common position in multilateral financial institutions. This is all the more significant with the launch of Global Gateway, which seeks to ensure a horizontal approach to implementing the EU's strategic priorities through support for investment in third countries – covering both development and non-development assistance.

At the international level, it is essential to ensure an efficient, coordinated and coherent communication of EU political priorities in the fora and bodies where multiple European actors are represented. The EU and its Member States should more systematically attempt to speak as one in order to maximise its impact and leverage. A more structured approach based on a clearer policy steer might be conducive to that end. The EU should continue to foster partnerships with a variety of European and international financing institutions on a broad reform agenda and key political priorities. Likewise, common positions should be sought on the strategic plans of all multilateral development banks which have EU Member States as shareholders. Synergies with the G7 and G20 agenda should also be strengthened at the EU level to leverage European positions better among its partners.

4.3.4. Integrate the EFAD in EU external economic policy, building synergies between development and commercial approaches

Enhancing coordination including between the EU financial tools is one of the objectives of the EFAD as a means to build synergies between development and climate finance and other EU financial tools, including export credits. In the Council Conclusions "A Globally Connected Europe" of July 2021, the Council of the European Union invited the Commission and EEAS to present coherent and streamlined financing schemes promoting cooperation between financial institutions for development, private investors and development banks and export credit agencies of EU member states. This work is seen as a key element underlying the EU's global connectivity efforts, as promoted by the Global Gateway strategy. The Council Conclusions on export credits of 15 March 2022 urged rapid progress towards this objective and supported the need for further analysis of key issues that can contribute to enhanced coordination, including an EU export credit facility which would complement national ECAs endeavour and development finance.

The mapping of external financial tools of the EU (European Commission-High Representative 2023), whose objective was to support the implementation of external EU policies and have the potential to strengthen the global competitiveness of EU companies, sustainable development as well as the EU's open strategic autonomy and geopolitical objectives, identifies potential synergies between ECA financing activities and development objectives as a potential opportunity that should be further explored. In turn, the report provides recommendations in the form of supporting pilot initiatives where DFIs and ECAs coordinate and a working group composed of European ECAs and financial institutions for development to exchange general information regarding their respective financial tools and modus operandi. Yet, integrating export credits into the EU's External Action Instruments[2] and the EFAD requires clear strategies, guidelines and processes, for which the Commission and Council could provide a clear impetus. In doing so, it is important to recognise the differences in mandates, regulatory frameworks and operational modalities between export credit agencies (ECAs) and financial institutions for development. The Commission Expert Group on Enhanced Coordination of External Financial Tools should be instrumental to that end, including to inform the necessary guidance to be provided by the Council.

[2] Export credits are currently not mentioned in the Commission Staff Working Document 2023 Annual Report on the implementation of the EU's External Action Instruments in 2022 (European Commission 2023b).

While this development is positive, as more coordinated support can deliver more efficient and effective impacts, there are a few considerations that should be made:

1. The EU's distinctive approach, in comparison to the US, China and other powers, is that it does not mix aid (ODA) with other funds but rather coordinates and builds synergies between these two types of resources. In doing so, it can put forward a comprehensive approach whilst being clear on what objectives investments are meant to serve.
2. Serving development, geostrategic and economic interests is not always possible in one given investment operation: some objectives are necessarily prioritised at the expense of others, or they can even be mutually exclusive. Using the EFSD+ to achieve a wide range of objectives can become challenging when legally constrained by the NDICI-GE Regulation and principles, avoiding the risks of misusing or tying aid and not achieving the EFAD's objectives.
3. In this context, it is key for the EU to build on existing instruments (including at the national level) and consider appropriate mechanisms at the EU level geared towards supporting European economic interests.

4.3.5. Coordination and policy steer by the Commission

The Commission plays an important role in the EFAD, playing a central role in the NDICI-GE, including through inter alia the programming exercise and convening and/or chairing the EFSD+ strategic and operational boards and the Global Gateway Board and its Business Advisory Group. In addition, several recommendations from the 2021 Council of the European Union's Conclusions on the EFAD refer explicitly to the Commission's role (Box 4).

While the European Commission did not change the content of the pillar assessment, it provided methodological advice to 16 European financial institutions to make the EFSD+ more inclusive and facilitate its access to smaller institutions. Nevertheless, the process remains lengthy and costly for those financial institutions.

In parallel, the Commission tried to push DFIs and PDBs to put forward joint PIPs in the context of the open architecture investment window. On the one hand, this encountered relative success with new and smaller partners coming on board and with over 25% of PIPs led by a consortium of at least two financial institutions. At the same time, this should be nuanced: proposals led by DFIs and PDBs are less common than those led by a single financial institution (and they often come from institutions from the same country - such as KfW and DEG or COFIDES/AECID). While the Commission facilitated events to encourage synergies between PN, EDFI and JEFIC, it has not yet managed to provide the necessary incentives to foster such a cross-sectoral collaboration.

The European Commission publishes an EFAD Roadmap in 2021 and annually tracks and monitors the progress of the EFAD implementation while adjusting the roadmap as it sees fit. This reporting is useful in that it goes slightly beyond simply looking at the operationalisation of these initiatives and approaches. However, the content of the EFAD roadmap does not include an overall picture of EFAD's actual investments and their allocations, as well as outputs, results, and impacts. In turn, it is not possible to have a comprehensive view of the extent to which EFAD's investments are: i) resilient, inclusive, sustainable actions; ii) focus on LDCs/fragile zones, climate finance, jobs creation and the Global Gateway; and focus (with a stronger emphasis on partnership) in private sector investments in the six sector windows; iii) mobilise public and private funds; and, of course, iv) contribute to development impact, visibility, coherence, effectiveness and efficiency.

Having this information could help the Council better understand the state of play if the EFAD delivers as per its objectives, and if not, what lessons learned should be drawn and what gaps should be addressed. In turn, this would support more strategic discussions and would be a strong basis for the Council of the EU to play a more active role and take evidence-based recommendations. In addition, in terms of process, the consultation behind the EFAD roadmap should include the inputs of EU member states - which should share information on their priorities and bilateral engagement to provide a full picture of the EFAD beyond the EU budget and instruments. EU member states should also more systematically share their views on the challenges and opportunities around the EFAD.

5. The governance of the EFAD

While the 2021 Council Conclusions on the EFAD emphasised the need for greater political guidance by the Council and stronger policy control and direction by the European Commission, the governance of the EFAD remains fragmented across a multiplication of governance mechanisms.

There are several governance mechanisms that shape the EFAD, each of them with its own 'raison d'etre' and following different yet interrelated policy processes. The Council of the EU and its preparatory bodies (including the Working Party of Foreign Relations Counsellors (RELEX) and the Working Party on Development Cooperation and International Partnerships (CODEV-PI)) play a decision-making / advising role on the EFAD through the development of Council Conclusions (non-binding documents indicating political commitments). Representatives from EU Member States' Ministries of Foreign Affairs and Development Cooperation respectively participate in these preparatory discussions.

To play its role, the Council relies on the progress and lessons learned from other policy processes governed by different actors. First, there are the NDICI-GE Committees, which inter alia discuss and approve national and regional multiannual indicative programs and annual action plans (which include the TEIs). EU member states are often represented by their Ministries of Foreign Affairs (and sometimes additional bodies such as the Germany Trade & Invest (GTAI) in the case of Germany). Importantly, this governance mechanism is anchored in the NDICI-GE Regulation. Likewise, the EFSD+ strategic and operational boards are additional governance mechanisms zooming in and overseeing the most visible instrument of NDICI-GE in the EFAD.[3] The same actors are participating in this governance mechanism (with the addition of the EIB), which can, in principle, facilitate internal coordination between EFAD related-discussions/decisions at the NDICI-GE Committees and EFSD+ boards, both at the European and Member States' level. The NDICI-GE Committees and EFSD+ Strategic and Operational Boards are anchored in EU regulations.

The Global Gateway Board, composed of EU Member States' ministries of Foreign Affairs, provides strategic guidance on the implementation of the Global Gateway strategy, including on its flagship projects. Contrary to NDICI-GE Committees and the EFSD+ Boards, the Global Gateway Board is not anchored in a regulation but in a strategy. Given its composition, making the link with NDICI-GE Committees may be less straightforward than in the case of the EFSD+.

Another key governance mechanism is the EIB Board and EIB Global Advisory Board. These are composed by other stakeholders, namely from the Ministries of Finance - which play a key role in guiding the strategy of the Bank - and the Ministry of Foreign Affairs / Development Cooperation following the observation that Ministries of Finance are not necessarily well-equipped to take evidence-based decisions on development-related issues. The Boards are institutional types of governance mechanisms.

Additional governance mechanisms relevant to EFAD exist - just to name a few: the IPA III Committee, the Ukraine Recovery Facility, the governance of individual TEIs and not least the board of major MDBs such as the EBRD.

All in all, this snapshot analysis suggests that the EFAD governance is:

- overly fragmented - split between a number of governance mechanisms which are not necessarily coordinated and follow different (overlapping and sometimes competing) objectives
- differentiated - the nature of the governance mechanism also differs, from those anchored in a regulation, those of institutional character and those arising from strategies
- diversified in its composition - some governance mechanisms are led by different EU MS Ministries, which do not necessarily coordinate their positions, thus contributing to incoherence. In addition, the turnover (given the political cycles and other reasons) often poses problems of continuity

As a result, the EFAD governance is characterised by a multiplication of meetings, which are interrelated and yet uncoordinated, with different participating actors and expertise, making it challenging to have a proper overview of the progress, challenges and lessons learnt of the EFAD, and to define guiding strategic priorities that should be achieved in the near future - all this in a context which requires agile, audacious and ambitious actions.

[3] Another governance mechanism is the one overseeing the implementation of Instrument for Pre-accession Assistance III (IPA III).

6. Moving forward

Since 2021 and the last Council conclusions on EFAD, the world has changed dramatically, requiring a stronger and more agile EFAD, better connected to the international financial reforms agenda and more attuned to the rising debt vulnerability, increased inequality, poverty and fragility affecting many developing countries, in a more conflicted-affected and geopolitically-fragmented tense world. The EU has put in place and implemented a number of new initiatives, including the NDICI-GE Regulation and EFSD+, the Team Europe approach and related TEIs, and the Global Gateway. Coordination among financial institutions for development and with other development actors has been enhanced. Yet, updates on progress and the state of play have been insufficiently transparent, lacking regular data and reporting provided in a detailed and coherent manner. Too often, it remains ad hoc, fragmented and incomplete, preventing a comprehensive approach and sufficiently informed guidance of the EFAD. The complex and often too fragmented landscape of the EFAD governance has not necessarily helped an efficient delivery of all the EFAD aspirations. Coordination among different actors could also be boosted, including between the EIB and the EBRD, and other financial institutions.

The stronger geopolitical and geoeconomic external ambitions of the EU towards open strategic autonomy and global competitiveness of its industry, with diversified and resilient supply chains, also require a better articulation of its external action instruments and financial tools, including export credits and other trade and investment promotion instruments. Such instruments, while different from the EFAD, can be complementary to it, as stated by the Council and envisioned in the Global Gateway. Yet, the EFAD must respect the NDICI-GE development requirements and guiding principles, including in terms of Official Development Assistance and untied aid. This is all the more important in a context where, according to the UN, "failure to redouble global efforts to achieve the Sustainable Development Goals […] may fuel greater political instability, upend economies and lead to irreversible damage to the natural environment, according to The Sustainable Development Goals Report 2023: Special Edition".

Despite positive endeavours by the European Commission and roadmap reporting, the Council and EU member states, and the development (financial) actors, it the extent to which the EFAD is achieving its objectives remains unclear. The mid-term review of the NDICI-GE should help inform all stakeholders. Salient features from a snapshot overview of EFSD+, TEIs and flagship projects is that EFAD investments tend to be focused on infrastructure but less in challenging contexts and important human development dimensions. The European Court of Auditors noted that the different methodologies used to set financial allocations "does not contribute to the goals of making the allocation of EU's external action funds more transparent, consistent, comparable and comprehensive" and that countries' multiannual indicative programmes adopted "did not demonstrate that the selected sectors of intervention were those in which EU funding could achieve high impact" (European Court of Auditors 2023b).

Moving forward, EFAD endeavours could focus on:

1. providing more regular and better updates on the progress achieved and investments conducted by the European Commission, the EU member states and their financial and development institutions so as to enhance the transparency and accountability of the EFAD, essential for an informed strategic and operational steering to maximise impact and strengthen partner countries' ownership;

2. stimulating and coordinating governance and discussion fora on the EFAD, at strategic, policy and technical levels, promoting (i) the European Commission policy steer, roadmap adjustment and reporting, and implementation of the EFAD, (ii) the EFSD+ board active roles, including in supporting the overall coordination, complementarity, and coherence of EU investments and external programmes and financing instruments, (iii) Council's political guidance, notably through more regular FICO (Working Party of Financial Counsellors)-CODEV-PI meetings in relations to other Council committees and working parties, and Informal meetings of EU member states' ministers for development and the related Director General meetings, (iv) the coherence of complementarity of the EFAD governance landscape, in line with the primacy of NDICI-GE Regulation and the other governance setting, including for the Global Gateway and TEIs, involving as appropriate the relevant development and financial actors, including the private sector, and (v) the synergies and complementary with the international financial architecture and MDBs reform agenda;

3. enhancing the complementarity and coordination of all the EFAD actors, including in partnership with institutions supporting the private sector and the private sector itself, with a renewed impetus by EIB Global, its boosted coordination with EBRD and other financial and development actors, promoting an inclusive approach, and stimulating EDFI-JEFIC-PN members coordination endeavours, as well as considering the complementarity and coordination of the other EU external policy, instruments and actors, including export credits, with the EFAD, respecting their regulatory, policy and operational differences; and

4. paying special attention to the debt and development vulnerability of more fragile, conflict-affected and lower-income countries, and their human development needs to help achieve the SDGs, adopting a gender-sensitive and inclusive approach in all sustainable green and social investments.

These dimensions will be critical to help guide the financial allocations for the remainder of the period 2025-2027 programming of NDICI-GE, building on the insights of the mid-term review of the NDICI-GE and the 2021-2027 MFF for the preparation of the next MFF, and for the implementation of the Global Gateway and TEIs.

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