
Towards a more efficient financial architecture for investment outside the European Union
1. Introduction

In order to respond to the increasingly complex challenges in the world around us – ranging from poverty conflicts and migration to climate-change and demographic challenges – development finance needs to rely on a combination of funding sources. To increase the impact, public and private funds must be leveraged as efficiently as possible. This requires the European Union to be agile and stand ready to adapt and develop further its financial instruments and policy tools for investments outside the EU, hereby complementing its traditional development cooperation toolbox, in order to deliver on its ambitious commitments to sustainable development.

Where conditions for autonomous private investments are not sufficiently met in partner countries, the EU is increasingly providing support through guarantees. In this way, financial instruments complement traditional development cooperation tools. If used more efficiently, EU-supported external investments contribute to the modernisation of economic structures and infrastructure in partner countries, which in turn paves the way for the creation of jobs, including for young people, and sustainable growth.

However, resources could be deployed in a more effective way. External investments supported by the Union should aim to serve the long-term interest of both the recipient partner and the EU, promoting an enduring and deep economic relationship between the two sides. It is important to ensure that projects are not only driven by short-term considerations but provide long-term strategic value for both the partner country and the EU.

Moreover, external investments supported by the Union must respect the requirements under the Treaties in terms of consistency with the EU’s external action and other policies. Due to the current fragmentation, investment decisions are not always made in full coordination and consultation across institutions and Member States, thereby potentially weakening the EU’s ability to pursue its external policy objectives vis-à-vis third countries. This includes the objectives of the Union under the ‘Partnership Framework’, which aims for a “coherent and tailored engagement where the Union and its Member States act in a coordinated manner putting together instruments, tools and leverage to reach comprehensive partnerships with third countries to better manage migration”.

Against this background, some Member States have emphasised the need to take a more fundamental look at the European financial architecture for development finance, and in particular the respective roles of the European Investment Bank and the European Bank for Reconstruction and Development. To this end, Germany and France have expressed their intention to set up a group of wise persons to reflect on this matter.

---

1 In line with the Agenda 2030 and the Addis Ababa Action Agenda.
2 Under Articles 208 and 212 TFEU, the Union shall ensure that development policy and other economic, financial and technical cooperation measures are carried out within the framework and principles of the EU’s external action. Article 21 TEU requires that the Union shall ensure consistency between the different areas of its external action and between these and its other policies.
The Commission supports all efforts to render the institutional and operational framework for external investments even more effective and operational, with a view to ensuring that it is fully commensurate to the current investment challenges in Africa, the EU’s neighbourhood and elsewhere in the world, but would at the same time underline the need for quick and operational solutions. In the particular case of Africa, the Commission has today adopted a dedicated Communication on a new Africa – Europe Alliance for Sustainable Investments and Jobs\(^5\), which presents concrete measures in order to take forward mutually agreed commitments with the African Union in the framework of the Africa – EU Partnership.

In early 2018 the Commission already hosted dedicated workshops on the European financial architecture for external investments with Member States and relevant stakeholders.

The Commission invites, as an **immediate priority**, the current main financial and development institutions active in development financing – at the national and European level – to consider a **more collaborative approach**, coherent with the EU external action objectives, when financing investments backed by EU budget guarantees. In order to fully implement the general principle of coordination of Union and Member States' development policies, as set out in Article 210 TFEU, these main actors are in particular encouraged to enhance operational synergies, as well as complementarity in terms of geographical and sectorial areas and portfolios of expertise and experience, while at the same time preserving innovation and a healthy level of competition and diversity in the market. Such cooperation could also be extended to other global International Financial Institutions.

Given the complex and fragile situation in many of the EU’s neighbouring regions and in Africa, the Commission firmly believes that time is of the essence and that the EU’s current focus must be on operational and practical solutions, rather than measures that would require fundamental institutional and structural changes such as the creation of new bodies or entities or mobilising additional capital participation from the EU budget. The broad external policy frameworks developed by the European Parliament, the Council, the Commission and the High Representative will continue to provide guidance in line with EU priorities and partnerships with the countries concerned, responding to their investment needs. The Commission will continue to ensure that the EU budget is spent as wisely as possible, with enhanced value added for every euro spent.

### 2. Making the most of existing instruments

To meet its ambitious external action objectives\(^6\), the EU endeavours to bring together all the relevant tools and institutions, combine financing resources and ensure that financial instruments adequately and coherently support the achievement of EU external policy goals. Investment supported by the EU budget plays a key role in this context, effectively complementing other instruments such as grants, which will remain essential to address challenges not suited for investment. In this context, it is important to take into account the diversity of the investment needs and challenges faced by EU partners, notably with regard to

---

\(^5\) Communication on a new Africa – Europe Alliance for Sustainable Investments and Jobs: Taking our partnership for investment and jobs to the next level COM(3018) 643

the most vulnerable partners, including the least developed countries, heavily indebted poor countries and those experiencing fragility or conflict.

2.1 The External Investment Plan

The EU has already taken determined steps in the direction of more efficient development financing. The European External Investment Plan, put forward in 2016, offers an innovative way of mobilising public and private sources of financing for development, as a complement to traditional assistance in the form of grants, building on the expertise of relevant public and private actors. At the core of the External Investment Plan, the European Fund for Sustainable Development draws on the experience of the Juncker Plan and the European Fund for Strategic Investments, as well as a decade-long experience of blending operations in third countries, in terms of crowding in private funding for more innovative and riskier investments.

The European Fund for Sustainable Development is based on the recognition that public and private investment are vital drivers of sustainable development, that private investment can complement public expenditure, and that businesses can be partners in sustainable development, creating win-win situations. Under the current Multiannual Financial Framework, the External Investment Plan provides an integrated package for the financing of investments in Africa and the EU’s Neighbourhood and is expected to mobilise at least EUR 44 billion of investment. With matching contributions from Member States or other sources, the Plan could double the mobilisation of additional finance, up to EUR 88 billion. The first calls for investment projects under the Plan were oversubscribed and operations blending grants and loans have already been intensified. The first programmes are now being implemented on the ground, already showing tangible results. On 20 June 2018, the first investment programmes benefitting from the EU guarantee in Africa and the Neighbourhood were approved, ensuring access to affordable bank-loans for vulnerable persons, who currently have difficulty borrowing money at affordable rates, as well as enabling more than 25,000 small businesses to access mobile accounts and long-term credit. These guarantees of around EUR 800 million should help to leverage an estimated EUR 8-9 billion in additional public and private investment. While these first results are encouraging, the awareness of the External Investment Plan needs to be enhanced and its implementation on the ground further accelerated, for example through targeted outreach campaigns.

Investments supported by the EU budget must also increasingly contribute to structural reform implementation. Investment can be a powerful instrument to drive reform and better governance in partner countries, contributing to improved conditions for inclusive economic activity by promoting more sustainable policies and regulatory frameworks, international

---

human rights standards, including core labour standards and due diligence requirements, more conducive business environments, new business models and greater government capacity. If deployed correctly, it can be a tool to strengthen anti-corruption safeguards, improve public finance management and reinforce financial sector regulation. In addition to financing individual investment programmes, the EU should, via technical assistance and enhanced policy dialogue, step up its contribution to support policies that will attract further investment from both the public and private sector. This is the purpose of the third pillar of the External Investment Plan. By working with partner countries on governance and regulatory reforms, on the fight against corruption and illicit financial flows, as well as on institution and capacity-building, the EU can be supportive in the creation of an environment where access to finance is facilitated for micro, small and medium-sized enterprises, where the legal framework is improved for both public and private investment, and where public procurement systems become more efficient, where investments benefit local economies and domestic job creation and where international standards are promoted. Maintaining an adequate pipeline with projects is also essential to sustain jobs and growth over time.

2.2 The current architecture has scope for more cooperation and synergies...

The EU’s existing financial architecture for external investments has developed over the past decades. The European Investment Bank\(^\text{11}\) – the EU Bank – focuses primarily on projects located within the EU, but is also active outside the Union in support of the Union's policies, based on existing EU instruments such as the External Lending Mandate and the Africa, Caribbean and Pacific Investment Facility. The European Investment Bank Group\(^\text{12}\) has also presented its Economic Resilience Initiative\(^\text{13}\) in parallel to the EU's External Investment Plan and provided large investment packages for specific countries, such as Ukraine. The European Investment Bank Group has recently initiated its own reflections on whether to establish a new Development Subsidiary.

The European Bank for Reconstruction and Development\(^\text{14}\) is a multilateral developmental investment bank – of which the EU Member States are majority shareholders – which concentrates its efforts on Eastern and Central Europe, Asia and Northern Africa. It has developed substantial local expertise through an existing network of resident offices on the ground and as part of its activities engages in policy work with partners, including by supporting reforms.

Moreover, many Member States have their own national development banks or institutions\(^\text{15}\) which contribute to the implementation of the Union’s policies and related operational actions on the ground. There are also an increasing number of regional development banks.

These actors currently mobilise the biggest share of external development lending and have different mandates, capacities and expertise, for instance in terms of geographical scope, business model, or presence of experts on the ground in the country of operation. There are existing good examples of cooperation between countries and institutions, as for example the EU Platform for Blending in External Cooperation (EUBEC\(^\text{16}\)). However, in some cases,
actors compete for investments outside the EU and guarantees supported by the EU budget, rather than looking for useful synergies and complementarity.

To address this issue, increased synergies and efficiencies should be achieved relatively quickly within the existing structures, for example through relevant regional and thematic specialisation of existing individual partner financial institutions, or joint initiatives of the European Investment Bank and the European Bank for Reconstruction and Development, which could be one way of drawing on the combined expertise of the two institutions, without foreclosing other actors from the market. Currently, in the Western Balkans Investment Framework (WBIF\textsuperscript{17}), the European Investment Bank and the European Bank for Reconstruction and Development collaborate in the management of a joint fund, which shows that such cooperation already exists and is possible. National development banks and institutions, as well as global partners – where relevant – could also join such future cooperation.

2.3 …and a stronger policy steer

The EU should endeavour to ensure an even stronger policy steer to maximise the effects of its external action, and more specifically of its development cooperation policy tools, in order to ensure a coherent reflection of its political goals and objectives in all implementation phases. This is also essential in order to achieve the most efficient use of tax-payers’ money and ensure full coherence with other areas of the EU’s external policy. Further efficiencies in terms of the realisation of EU’s policy goals can be achieved by increasing coherence across the various actions undertaken by the implementing partners. The ongoing review of existing consultation mechanisms should contribute to achieving this goal.

2.4 Improved intra-EU cooperation in international financial institutions

Under all circumstances, it is essential to ensure rapidly an improved upfront EU coordination in relevant international financial institutions, which has not been sufficiently ensured until now. Member States and the Union are represented in different configurations in the governance structures of international financial institutions. Only by acting concertedly and coherently can the EU’s development finance objectives be met. This concerns in particular the European Bank for Reconstruction and Development. After the United Kingdom leaves the European Union, the combined share of the EU and the Member States in the European Bank for Reconstruction and Development will decrease from 62.8\% to 54.3\%, increasing the importance of strong coordination of EUs position ahead of meetings of the Board of Governors of the European Bank of Reconstruction and Development\textsuperscript{18}. Such enhanced, upfront coordination between the Member States and the Commission could potentially pave the way, in the longer-term perspective, for a change of the Statutes of the European Bank for Reconstruction and Development, allowing a joint vote at the Board of that Bank on behalf of all EU Member States.

\textsuperscript{17} The WBIF was established in 2009 as a joint initiative of the European Commission, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, and several bilateral donors. It is a regional blending facility supporting EU enlargement and socio-economic development in Albania, Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia.

\textsuperscript{18} The largest non-EU Shareholders in the Bank are: the United States of America (10.10\%), Japan (8.60\%), the Russian Federation (4.04\%), Canada (3.43\%), Turkey (1.16\%). China holds 0.10\%. 
3. Scaling up the EU’s external investment capacity in the medium-term

3.1 The Proposal for a Neighbourhood, Development and International Cooperation Instrument

The spirit and principle of maximised impact are also the basis of the Commission’s proposal for the future Neighbourhood, Development and International Cooperation Instrument\textsuperscript{19}, presented in June 2018, as part of the proposals for the next Multiannual Financial Framework. The architecture of this instrument reflects the geographical and thematic priorities of the EU and ensures that the EU will be equipped with a modern, powerful, agile and flexible tool to address sustainable development as part of the EU’s external action. This proposal therefore approaches the implementation of development cooperation through the lens of the most appropriate tool in a given context, such as grants, budget support, financial instruments or guarantees, or a combination of instruments. The proposed new instrument integrates the model of the External Investment Plan and follows the same innovative approach to development financing, through an expanded European Fund for Sustainable Development Plus (EFSD+) and a new External Action Guarantee of up to EUR 60 billion.\textsuperscript{20}

This framework integrates the existing provisions for the European Fund for Sustainable Development, the External Lending Mandate to the European Investment Bank and the Guarantee Fund for External Actions.

The new instrument will represent a substantial scaling up in the provision of blending, guarantees and other financial operations supporting external investment. In addition, while Africa, the Neighbourhood and the Western Balkans will continue to receive particular attention, the guarantee will be expanded geographically. Together with the private sector and thanks to the multiplier effect, it may mobilise up to half a trillion euro in investments for the 2021-2027 period. In order to ensure the most efficient management of EU resources and in light of the significant increase in volume of the EU guarantee, this requires the existing set-up to be adapted accordingly.

3.2 A reinforced European financial architecture

The ambition of the European Fund for Sustainable Development Plus (EFSD+) will require an external financial architecture that is able to formulate and deliver efficient projects, while implementing the EU’s strategic policy orientation. In this context, the current fragmentation calls for a reinforced architecture within the framework proposed by the Commission in June 2018.

For the EU’s financial instruments to deliver on the policy goals that will be set by the European Parliament and the Council, the EU should endeavour to ensure stronger policy steer and control in order to foster the most efficient use of tax-payers’ money in terms of both geographical and thematic priorities. In the framework of next Multi-annual Financial Framework, this could take the form of an EU external investment platform, bringing together all actors benefitting from EU budget guarantees for external investment under a new single framework, established along the following principles:

\textsuperscript{19} COM(2018) 460 final, 14 June 2018.
\textsuperscript{20} This amount is also foreseen to finance EU macro-financial assistance operations to support countries faced with a balance-of-payments crisis (for up to EUR 14 billion in 2021-2027).
• The **first level** concerns the definition of priority sectors and geographical areas for investment. These will be set through the **multiannual programming process**, on the basis of the external action objectives of the Union, as foreseen in the Regulation establishing the Neighbourhood, Development and International Cooperation Instrument.

• The **second level** concerns the management of the use of the EU guarantee. The **guarantee management is a responsibility of the Commission**. It includes approval of the use of the guarantee (including policy compliance check of the project pipelines), setting and monitoring the risk parameters aiming at protecting the EU budget, and the overall management of the use of the guarantee. Beyond that, the Commission would not seek to carry out general banking operations, nor would it replicate or duplicate within the Commission technical expertise that is available elsewhere. The assessment of the risk of the different projects/pipelines of projects, identified according to the priorities established at political level, should be performed by a **risk assessment group**.

The provisioning for the European Fund for Sustainable Development Plus (EFSD+) will form part of the Union common provisioning fund in accordance with the relevant provisions of the Financial Regulation, which provides for an independent expert evaluation by 30 June 2019 as regards whom to entrust with the financial management of the assets of the common provisioning fund.

• The **third level** would carry out the investments on the ground and submit the pipelines of projects for assessment. The European Investment Bank and other development finance institutions, on the basis of their respective expertise and subject to their own due diligence procedures and governing processes, should be able to access the EU guarantee to perform the projects delivering the highest added value for the EU on the ground. The promotion of cooperation among eligible counterparts is already foreseen in the proposal for a Neighbourhood, Development and International Cooperation Instrument. A model of joint initiatives for specific regions or sectors would be welcomed. Pipelines of projects brought together by different institutions in co-operation will be evaluated positively by the Commission when deciding on the effective, efficient and fair use of available resources.

The platform will be chaired by the Commission who, in coordination with the other participants, will ensure that scope, location and timing of investment decisions are in line with the established investment priorities and the overarching external policy objectives of the EU.

---


22 Different models would be possible for such a risk assessment group. By way of example, the independent experts advising the Commission could be selected i) as the result of a tender with the private sector for a competitive fee and work as external consultants, or ii) provided by the implementing partners (development finance institutions and National Development Banks). In this latter case, in order to avoid any potential conflict of interest, the expert should not assess projects from his or her own institution of origin.


A reinforced architecture for the European Union’s external investment

Level 1: Policy guidance through Multiannual programming of resources

Level 2: The Commission approves the use of the EU budgetary guarantee taking into account the risk assessment by independent experts

Guarantee management

Pipelines of projects submitted to open calls for tenders

Level 3: Implementing Partners: the EIB, Development Institutions (such as the EBRD) and National Development Banks

Private Sector

Projects
4. Conclusions

The many investment challenges and opportunities in Africa, the EU Neighbourhood and other parts of the world cannot wait. They require that the EU focuses its actions and uses existing EU instruments, institutions and actors as efficiently as possible, in pursuit of the Union’s political and policy goals and objectives. While there is merit in reflecting on more structural and fundamental reforms in the longer-term perspective, the Commission is of the view that action in the short-term should focus on rendering the existing system as effective and operational possible.

To this end, the following priorities and actions have been identified:

- All European partners are invited to strengthen their cooperation with a view to contributing to the realisation of the Union’s external action policies, in full coherence with the Union’s political goals and strategic interests.

- All relevant partners are invited to accelerate the implementation of the External Investment Plan. Awareness of the Plan will be raised by targeted outreach actions.

- While recognising the privileged role of the European Investment Bank as the EU Bank, the EIB-Group and the European Bank for Reconstruction and Development, together with other actors – as appropriate – are invited to explore further synergies, for example in the form of a joint initiatives with specific purposes, in the framework of the ongoing implementation of the External Investment Plan and the future Neighbourhood, Development and International Cooperation Instrument.

- The European Parliament and the Council are invited to agree on the main parameters of the proposal for a Neighbourhood, Development and International Cooperation Instrument in the framework of the next Multi-annual Financial Framework.

- A reinforced European financial architecture for the European Union’s external financial investment should be put in place for its implementation.

- A cooperation mechanism should be put in place, ensuring that the positions of EU Member States are better coordinated in the European Bank for Reconstruction and Development in particular.

Building on the useful reflections in early 2018, the Commission will convene in October 2018 all relevant actors, including Member States, development finance institutions and other stakeholders, with a view to operationalising as rapidly as possible the abovementioned priorities, without prejudice to the ongoing legislative procedure on the Neighbourhood, Development and International Cooperation Instrument or wider reflections on the long-term European financial architecture for development.