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Delegations will find attached the report by the High-Level Group of Wise Persons on the European financial architecture for development.

Council of the European Union
General Secretariat

EUROPE IN THE WORLD

The future of the European financial architecture for development

An independent report by the High-Level Group of Wise Persons on the European financial architecture for development

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Executive summary

The **European Union (EU) and its Members States** have historically been **the largest development donors in the world**, contributing to improvements in poverty reduction, decreasing child mortality and higher life expectancy around the globe. **But the fight against poverty and inequalities is not yet won**, and **getting closer to achieving the Sustainable Development Goals (SDGs) requires further attention and financial resources**.

Climate change is without doubt the single most important global challenge. It has an increasingly **large impact on communities, especially in developing countries,** due to geographical vulnerability, a lesser ability to cope and political fragilities. Climate change also **threatens biodiversity, causes natural resource degradation and depletion**, and could lead to a higher probability of **pandemics and forced dislocation**.

It is clear that **Europe needs to engage more in Africa as well as to step up its efforts to address climate change, both in terms of adaptation and mitigation**. A renewed focus and additional development finance resources will be necessary to support inclusive growth and job creation in Africa as well as a low-carbon transition.

The **European development financial architecture** plays **an important global role**, but is **also complex**, composed of a multiplicity of actors at EU and national levels. There are **overlaps, gaps and inefficiencies, sectoral and geographical**, especially in terms of presence and experience in Africa, of the main European multilateral finance institutions, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Strong and effective coordination is necessary to turn this situation into a strength rather than a liability.

And while the system collectively has a comprehensive range of development financial instruments available, there is a **not a single EU strategy to define how these should be used in synergy to tackle the top-priority global challenges**.

The present fragmentation of the system, especially between the EIB and the EBRD, is detrimental to the fulfilment of the EU's priority goals and the achievement of the desired development impact. This argues for the **consolidation and streamlining of development finance and climate activities outside the EU into a single entity, a European Climate and Sustainable Development Bank,** in order to avoid overlaps, and strengthen the EU's presence, role and long-term capacity to deliver on EU development priorities.

This report considers **three options for such consolidation**. They all imply important institutional changes and require significant financial resources. The first is to turn the EBRD into such an institution by transferring the extra-EU activities of the EIB to the EBRD. The second is to create a new mixed-ownership bank with the EIB, the EBRD, Member States and the European Commission as shareholders. The third is to task the EIB with creating a subsidiary for its extra-EU activities and participating in it as a minority shareholder alongside Member States, the European Commission, and national development banks (NDBs). None of these options comes without important obstacles.

They all have different strengths and require strong political ownership and will to act. The report has attempted to present these in an objective manner. Given their advantages and disadvantages, the Group suggests that **in-depth feasibility studies be undertaken on all**

three options, as their legal pre-conditions and the financial consequences need to be weighed against each other.

In parallel, **reflection is needed at the highest political level** on the preferred way forward. Before such a discussion takes place, **it would be strongly advisable not to extend the mandates of the EIB and the EBRD** in a manner which could result in further overlaps or uncoordinated expansion.

In addition, a **series of steps need to be taken as a matter of urgency** to make the European financial development architecture stronger and more responsive to development challenges. They fall into three main areas: (i) **creating a strong policy centre in the EU**, (ii) **using the proposed Neighbourhood, Development and International Cooperation financial instrument (NDICI) as a catalyst for improvement** and (iii) **suggesting some concrete actions until a political decision is taken on the institutional restructuring**.

The **new European institutional cycle and the new multi-annual financial framework (MFF) present a window of opportunity**. It is a matter of **political urgency for Europe** to be able to ensure that external financial instruments are used strategically, that they contribute to our wider political aims, enhance Europe's leadership and reinforce its influence in the world. The stakes are high, and our ambitions should rise to them.

INTRODUCTION

1. Introduction

Old and new global challenges are rapidly shaping the political landscape and in responding to them, the European Union urgently needs to rethink its policy priorities for external action and development. The broad EU development agenda and its contribution to the global goals require adequate political leadership and an EU influence in the world proportionate to its contribution.

With Decision (EU) 2019/597, the Council of the European Union established a *High-level Group of Wise Persons on the European financial architecture for development* with the task of producing an **independent report on the challenges and opportunities for improving and rationalising the European financial architecture for development and possible scenarios for its evolution**.

Concerns about the effectiveness of the external development financing architecture of the European Union are not new. In evaluating the EIB's financing activities outside the EU, the **2010 Camdessus Report**[1] identified serious deficiencies in the broader system. To a certain extent they still remain, partly because there has been no decisive institutional follow-up on the recommendations of the report. But new development challenges and more ambitious international development goals are making the task more urgent.

The review presented here has taken a **system-wide perspective**, considering all relevant European financial actors - the EIB, the EBRD and the financial instruments managed by the European Commission, as well as the work of European national development financing institutions. Our reflections build on the Camdessus Report, but our conclusions take account of the profound changes in and around Europe over the past decade which call for a thorough rethinking of the way development financing is organised at the European level.

In addition, the **new EU institutional cycle** and the **EU multi-annual financial framework** (MFF) for the period 2021-2027, currently under negotiation, provide an **opportunity** to improve the current system, notably in terms of development impact, effectiveness, additionality, reduction of overlaps and improvement of value for money.

The present report presents the conclusions and recommendations of the High-Level Group based on deliberations which took place between April and September 2019 and which benefited from consultations with a number of relevant stakeholders (see Annex 3 for a complete list of parties consulted).

The report is organised as follows: Section 2 outlines the main current global challenges, the EU development policy goals and the context in which the European system functions; Section 3 highlights the key features of an effective development financing system; Section 4 gives an overview of the main actors in the European development financing architecture and assesses their respective strengths and weaknesses against the features identified in Section 3; Section 5 focuses on (i) the immediate steps recommended to improve the system as a major institutional restructuring is being prepared, (ii) the scenarios for improvement proposed by the Wise Person Group and (iii) the preferred way forward.

[1] https://www.eib.org/attachments/documents/eib_external_mandate_2007-2013_mid-term_review.pdf

GLOBAL CHALLENGES AND THE EU's DEVELOPMENT POLICY GOALS

2. Global challenges and the EU's development policy goals

The **European development financing system is a key component of the global development architecture**. The **EU and its Member States are collectively the biggest development aid donors in the world**, accounting for roughly half the total official development assistance (ODA) provided to developing countries. The EU's collective ODA[2] rose from 0.31% of Gross National Income (GNI) in 1999 to 0.50% in 2017 and stood at EUR 75.7bn in 2017. The EU and its Member States are collectively the largest provider of public climate finance; amounts involved have almost doubled in nominal terms between 2013 and 2016.

Many interlocutors recognise the **EU's leading role in international development cooperation based on the EU's development values**. The EU and its Member States have been important promoters of and are fully committed to the United Nations' (UN) global agenda, which to a large extent drives policy formulation, financing decisions and implementation at EU level. The fundamental principles underpinning EU development policy have been part of the European project since its inception.[3] More recently, the European Union adopted the Global Strategy for the EU Foreign and Security Policy in 2016 and the 2017 new European Consensus for Development, a shared framework for development cooperation for the EU and its Member States, which aligns EU cooperation with the UN 2030 Agenda.[4]

The **EU and its Member States have also been at the forefront of innovation in development finance**, seeking to ensure that the development grants they have traditionally provided are complemented by other sources of finance (e.g. blending, guarantees)[5]. Based on experience with the Juncker Plan (EFSI), in 2017 the EU set up the European Fund for Sustainable Development (EFSD), a guarantee fund to scale up private sector involvement with economic and social development in Africa and in the countries bordering the EU. This has been considered an important innovation and a continuation, in the form of European Fund for Sustainable Development Plus (EFSD+), has been proposed for the new budgetary period 2021-27.

These efforts have contributed to positive changes. We have witnessed **improvement in the living conditions of the most vulnerable globally**. According to statistics from the World Bank and the United Nations, extreme poverty is currently at its lowest overall level in recorded history, both child mortality and youth illiteracy have fallen, and global average life expectancy has increased.

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[2] The combined total of the ODA reported by the EU Member States and the additional ODA provided by the EU institutions.

[3] As stated in Article 3.5 of the Treaty on European Union, the EU 'shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law.'

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:C:2017:210:FULL&from=EN

[5] For more details, see European Commission Staff Working Paper (2018). *Investing in Sustainable Development*.

However, there still are important challenges ahead. The **pace of poverty reduction is slowing** and the number of people living in extreme poverty globally remains very high. Africa accounts for about two thirds of the world's extreme poor. If current trends persist, it will account for nine tenths by 2030. Many of them live in countries with fragilities, which makes managing international support much more challenging.

By 2050 there will be two billion more people on the planet[6]. There will be significant demographic differences between regions and between countries. Many developed countries will be facing significant ageing trends. With a projected addition of over one billion people, the countries of sub-Saharan Africa could account for more than half of the growth of the world's population between 2019 and 2050. In a context of an **increasingly interdependent world with significant inequalities across regions**, these demographic trends are likely to be a source of intense and disorderly migratory pressures, leading to and originating from insecurity and violence.

Europe's contribution to development finance should take into consideration the risk of financial fragilities in low-income countries. The median debt level among low-income countries (LICs) increased from 33 percent of Gross Domestic Product (GDP) to 47 percent between 2013 and 2017 after a period of more than a decade of significant decline[7]. The LICs in sub-Saharan Africa have recorded the fastest rise in debt levels of all regions. High debt level create uncertainty, deterring investment and innovation. This will also have implications for the instruments a European institution will have to bring to bear in delivering the desired policies.

Climate change, including natural resource degradation and depletion, is arguably **the single most important global challenge** and has impacts on all areas of life. It is expected to trigger growing population movements within and across borders as a result of increasing intensity of extreme weather events, sea-level rise and acceleration of environmental degradation. With a negative impact on vital resources such as water, food, and land, and with increasing competition for natural and extractive resources, climate change will exacerbate poverty, inequality, and unemployment. It will present huge risks for public health, with increased probability of pandemics. Failure to address the negative impact of climate change could further aggravate social, ethnic and religious tensions, as more communities struggle to secure political and economic power and access to resources. The impact on developing countries is expected to be higher, due to geographical vulnerability, a lesser capacity to cope with damage from severe weather and rising sea levels, and political fragilities. This, in turn, will add to migratory pressures, likely leading to a substantial rise in the scale of migration and displacement.

It is clear that Europe needs to engage more in Africa, and to do so urgently. The current pace of economic growth and job creation in Africa is not sufficient to meet its pressing needs and enable it to eliminate extreme poverty, deal with conflicts and fragility, and set itself on a path of sustainable development. It is equally important to **step up efforts to address climate change and the degradation of biodiversity**. A strong linking of development activities with a low-carbon-footprint agenda and with protection of natural resources, as a way to adapt to climate change is becoming a development financing imperative.

[6] UN World Population Prospects 2019

[7] IMF Policy Paper (2018): *Macroeconomic Developments & Prospects in Low-Income Developing Countries*

World leaders agreed on a **common, UN-led global agenda** to address some of these issues - the **2030 Agenda for Sustainable Development with the Sustainable Development Goals** at its core and the related **Addis Ababa Action Agenda**, as well as the **Paris Climate Agreement** and **the Convention on Biological Diversity**. There has been a significant shift of policy focus towards the root causes of poverty and consideration of the holistic nature of development. The SDGs cover topics ranging from inequality to global trade. They establish a much clearer link between the poverty and climate agendas, including the preservation of biodiversity. In terms of development financing, there has also been a shift from an emphasis on donor assistance to all forms of finance, particularly from the private sector.

However, there remains the issue of **insufficient resources for pursuing the SDGs**. Estimates[8] suggest that developing countries face a USD 2.5tn annual financing gap to meet the SDGs[9], and aid currently fills only a sixth of the financing gap of the 48 poorest countries[10]. Without a change in aid levels, the size and distribution of the current funding gaps effectively rule out ending extreme poverty everywhere by 2030[11]. While official ODA will remain the main instrument for dealing with fragile and low-income countries which lack basic market institutions and infrastructure, **both domestic resources and the mobilisation of private institutional investors are essential**. This should be accompanied by improving the enabling environment for private-sector investments and operations. The focus should be on framework conditions, developing local capital markets, infrastructures and institutions.

Any real success in achieving these global objectives and ambitions requires **globally coordinated action and a well-functioning global system of development finance**. We see an **increase in the number of development financing actors** - both countries and institutions, small and big. New development finance institutions have been created in recent years (e.g. the Asian Infrastructure Investment Bank (2015) and the New Development Bank (2014)). In 2013 China launched its Belt and Road Initiative, providing investment credit to a wide range of countries. In October 2019 the US is also launching the new US Development Finance Corporation, consolidating the Development Credit Authority of USAID with the Overseas Private Investment Corporation. Financial flows from non-OECD (Organisation for Economic Co-operation and Development) countries are also becoming increasingly important. **Multiple actors can be a strength for the global system**. But **they can also lead to more fragmentation** in the absence of effective platforms for dialogue and coordination. The 2018 G20 Eminent Persons Group on global financial governance recognised the lack of coherence, joint capacity and effectiveness in the current system. Its recommendations constituted an urgent call to ensure that today's development finance institutions work together, at global, regional and bilateral levels, as a system, in order to crowd in private sector finance more effectively.

The most pressing issues for Europe - Africa, the Neighbourhood, climate change, biodiversity degradation, migration - need institutional structures capable of mobilising the required resources quickly and efficiently and delivering results. As challenges to the multilateral system have become a reality in the world at present, the EU has an important leadership role in strengthening multilateralism, and remaining at the core of the global architecture for development. This requires that Europe's own development

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[8] It is important to highlight that there are a number of assumptions behind such estimates and they need to be taken with due caution.

[9] UNCTAD. *World Investment Report 2014:Investing in SDGs: An Action Plan*

[10] Overseas Development Institute (ODI) (2018). *Financing the end of extreme poverty*

[11] Ibid.

financing structure is fit for purpose and draws on the strengths of all of its multiple actors, while delivering as one. This is currently not the case. **Lack of urgent action would present substantial risks for the EU's main policy goals on development, growth, fighting climate change and the overall global standing of the EU.**

REQUIREMENTS FOR A SYSTEM THAT DELIVERS

3. Requirements for a system that delivers

The EU has shown leadership in global efforts towards sustainable development and fighting climate change. It has also been stepping up its role as a provider of global public goods. Any reform of the European financial architecture for development should build on these achievements. To propose changes when looking at the system as a whole, it is important to consider the necessary **requirements** for a European system that delivers effectively. They can be clustered around the following five main features:

Development impact

The ultimate aim of development finance should be to achieve tangible and lasting development impact. This should be understood as the long-term effect of interventions, aimed at the 2030 Agenda and the SDGs, creating positive change while ensuring value for money. The financial architecture should give special attention to the **development of local capital markets and infrastructures** as well as **governance reforms and capacity building**, leading to **strong private-sector development** as a way to create the necessary framework conditions for poverty eradication, job creation, sustainability and equitable economic growth. All this requires sustained investment in people.

Ownership in recipient countries is crucial for achieving tangible and lasting development impact. A **continuous dialogue with recipient countries is necessary,** one built through a collaborative and strategy-driven process and through close cooperation with local and regional partners. This entails fostering policies and institutions that can provide a framework for developing and improving the recipient countries' own development efforts.

Conducting systematic monitoring, measurement of development impact, analysis and reporting of performance against desired outcomes, ideally broken down by region, country and project, ensures **feedback and continuous learning**. It also facilitates **transparency** and the necessary **accountability and harmonisation of indicators used for impact measurement.**

A well-functioning system should be able to concentrate its efforts and provide sustainable solutions and development impact for the pressing needs of the most affected areas, the Middle East and North Africa (MENA) and Sub-Saharan regions.

Policy coherence

Such a system should be able to transmit its values and priorities by **contributing effectively to the formulation and implementation of global development goals and strategies.** To that end, it is important to maintain EU leadership that has a **clear yet pluralistic voice**, backed by strong political endorsement. That implies policy coherence across all EU levels and actors, including in relevant international fora. It also relates to the EU's ability to exploit synergies between various policies - trade, aid, taxation, etc. - for the benefit of its development agenda. Alongside strong ownership in recipient countries, this would help in **translating** those **global goals and strategies into** focused **regional and country**

strategies, and **operational policy objectives** which then materialise into **concrete projects**.

Institutional design

The European system should have the right set of institutions to optimise its capacity for mobilising development finance resources in support of its development agenda. It should be conducive to **avoiding overlaps** (geographical, sectoral or thematic) **and fragmentation,** which may result in inefficiencies. The system should provide incentives and create value for money by building on the strengths of its institutional actors and Member States' partner institutions (e.g. national development finance institutions (DFIs)).

For EU-level financial actors, this could include shareholdings which are inclusive (e.g. including NDBs, DFIs and countries of operation (COOs)), proper incentive structures and human resources strategies (e.g. providing for development-minded outcomes rather than a focus on volumes), as well as effective decision-making between governing and management boards.

The system needs to have access to the full set of available **financial instruments** (including grants, loans, blended instruments and guarantees with varying degrees of concessionality)[12]. This should be coupled with the possibility of mobilising **resources which are best suited, both in quantity and type** (e.g. grants, loans, etc.), **to the issues** at stake.

The use of project, programme or policy-based grant finance should focus mainly on poorer countries, support of global public goods, and development of bankable projects. There should be a strong emphasis on **additionality and crowding in of other types of finance, notably private investment and domestic resource mobilization** (including by strictly applying the principles for **blending in the private sector** currently being defined at international level[13]), while ensuring minimum concessionality and applying market-based pricing. As a good policy environment in recipient countries is essential to facilitate optimal development impact, availability of **adequate incentives and assistance programmes for policy reforms and institution-building are important** parts of a development financing system that delivers.

Effective coordination

While the diversity of all EU actors and their interests are the basis for continuous innovation and progress, and should therefore be acknowledged and regarded as a strength of the EU system, **effective coordination** should be achieved **with a suitable governance framework**. The more European actors join a common strategy, the stronger their influence will be in **the global development financing system.**

The European system is well integrated within the global system through its partnerships with multilateral and bilateral financial institutions. They serve as important implementing partners

[12] A number of developing countries are still too poor to absorb significant amounts of market-based lending, and their levels of debt are rising steadily. They also have significant financing needs for public goods.
[13] DFI Working Group on Blended Concessional Finance for Private sector

of the EU development budget, as co-financers, and as providers of technical assistance for EU-funded development projects. Specific tools, such as **regional/country platforms and partnerships**, are useful for such partnerships in reducing fragmentation, avoiding overlaps, closing gaps and converging around core standards. To be effective, however, they need proper buy-in from all actors involved.

Technical expertise, including risk and debt sustainability management

EU-level financial actors active in development financing need to have technical **expertise in development** as well as presence and **experience on the ground.** These are key elements for successful financing operations and, ultimately, for achieving the desired development impact. They facilitate the identification of local needs and appropriate partnerships, inter alia with a view to mobilising the private sector. Such expertise should facilitate an sufficient **risk-taking capacity through solid risk and debt sustainability assessments**.

OVERVIEW OF THE EXISTING EUROPEAN SYSTEM

4. Overview of the existing European system

4.1 Functional mapping of the current system

The current European financial architecture for development is a **complex** system in which a large number of different actors interact. It has a **natural centre around the EU-level institutions,** mainly the European Commission and to a lesser extent the EIB and the EBRD, but also **includes a number of national development finance institutions (DFIs),** embedded in the EU financial system and with important roles in both public and private-sector financing. The European Commission is responsible for managing development financing through both the EU budget and the European Development Fund[14] (EDF). The European system is thoroughly embedded in the global system of development finance through its active policy involvement in the boards of Multilateral Development Banks' (MDBs), its co-financing activities, and its participation in trust funds.[15]

The European Union provides a significant amount of development funding through the EU budget -roughly EUR 95bn allocated to external policies in the 2014-2020 programming period. The total financial resources for the EDF for the same period amount to EUR 30.5bn. An important feature is the availability of funds with varying degree of concessionality (from grants to non-concessional loans), which can be modulated to the specific development needs. This also enables the EBRD and the EIB to invest EUR 6.7bn and EUR 7.8bn in 2018, respectively, outside the EU (see Annex 4 for more details) .

The distribution of the EU budget for development financing is managed in the context of the MFF, which determines the envelopes and operational rules for geographic and thematic instruments of external financing. The European Commission thus has the fiduciary responsibility for the effective use of these funds.

The various services of the **European Commission,** together with the European External Action Service (EEAS), and in consultation with countries of operation and other various stakeholders, define the EU's medium and long-term priorities, objectives and funding allocations to support partner countries/regions through a process of *multi-annual programming*. This process aims to ensure that the EU budget is spent in line with EU policies and that recipient countries have a sense of ownership of the objectives and priorities identified. The Commission has been promoting the use of *joint programming*, whereby the EU and its Member States work together to implement EU support to partner countries to maximise the impact of EU external action. More recently, the Commission has intensified its

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[14] The European Development Fund (EDF) is the EU's main instrument for providing development aid to African, Caribbean and Pacific (ACP) countries and to overseas countries and territories (OCTs). The EDF funds cooperation activities in the fields of economic, social and human development as well as regional cooperation and integration. It is financed by direct contributions from EU Member States based on a contribution key and is covered by its own financial rules.

[15] The global development finance system can be seen as a network of development finance institutions, usually with a public background and ownership, but with different focuses (public sector, private sector), different governance, operating instruments, geographical focuses and mandates, including more than 25 global, regional and sub-regional multilateral development banks (MDBs) and a large number of national DFIs. In recent years also National Development Banks in COOs experienced a revival and today we see a number of NDBs playing important and constructive roles in the development of their countries.

efforts on coordinating with the main international financial institutions (IFIs), the European DFIs, banks and donors from partner countries, by means inter alia of discussions on *country strategies*. Cooperation with IFIs/DFIs also takes place through eight blending platforms covering all the regions where the Commission operates (e.g. Western Balkans Investment Framework, Neighbourhood Investment Platform, Africa Investment Platform).

The main forms of financial support which the Commission has at its disposal include: budget support grants; macro-financial assistance grants and loans; technical assistance grants; grants for development projects implemented through non-governmental organisations (NGOs) under direct management; indirect management of cooperation projects through implementation agencies (e.g. UN, World Bank Group, EU Member States' own agencies); blending of EU budgetary resources with IFI/DFI financing; and EU budgetary guarantees with two basic models - the External Lending Mandate (ELM)[16], currently a wholesale guarantee to the EIB, and the EFSD[17], created in 2017 with open access for various implementing partners. In addition, the ACP Investment Facility[18] is a revolving fund entrusted to the EIB and financed by the EDF with direct contributions by Member States.

The establishment of the EFSD has also seen the introduction of a coordination process for the use of EU budgetary guarantees through the creation of the EFSD Strategic Board. It brings together representatives of the Commission and the EEAS, all EU Member States and the EIB, with the European Parliament in an observer role. While the final decision-making power stays with the Commission, the EFSD Strategic Board provides advice on the strategic orientation and priorities of EFSD-guaranteed investment. It supports the overall coordination, complementarity and coherence of operations implemented by the partner institutions.

The Commission is proposing significant changes to the existing external development funding framework for the period 2021-27 through its proposal for a Regulation establishing a Neighbourhood, Development and International Cooperation Instrument (NDICI).[19] This new instrument is intended to integrate a number of existing external financing instruments into a single instrument. This also includes the integration of all existing modalities of implementation, covering not only grants but also budget guarantees in the programming process, in order to improve the alignment between budgetary spending and EU external policy objectives. It also envisages a much stronger role for *joint programming* which is considered the preferred implementation approach. Member States are to be involved in key decisions on the multi-annual indicative programmes and financing decisions, notably through a new NDICI Committee. The Commission also proposes that the governance established under EFSD with the EFSD Strategic Board be applied in the future to all blending and budgetary guarantee.

The **EIB** is fully owned by the EU Members States.[20] It is one of the largest public banks in the world, with over EUR 450bn in outstanding loans, but its main focus is on investment inside

[16] For the period 2014-2020, the ELM covers EUR 32.3bn of EIB investment operations outside the EU.
[17] For the period 2018-2020, EUR 1.5bn available EU budgetary guarantee under the EFSD.
[18] Its total endowment is of EUR 3.7bn. The Commission is a non-voting member of the ACP Investment Facility Committee.
[19] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A460%3AFIN
[20] Although the European Union is not as such a shareholder of the EIB, the European Commission has one voting member in the EIB Board of Directors.

the EU. It operates in 118 countries, with extra-EU activities representing a small part of its portfolio (around 10% of its overall annual disbursements) and only a limited part of its staff is deployed outside its headquarters in Luxembourg (it currently has 27 representative offices outside the EU).

Its activities outside the EU are conducted with own resources and specific mandates and are partially on balance. During the 2009-2018 period, around 50% of EIB signatures outside the EU targeted private sector final beneficiaries, with the remaining 50% targeting sovereigns and sub-sovereigns. It is one of the largest multilateral financiers of climate action projects globally as well as being the largest multilateral green bond issuer. Since 2012, total climate action signatures outside the EU have amounted to over EUR 16bn.

It cooperates with other IFIs and DFIs through co-financing, knowledge-sharing, and technical assistance. In most cases, the bank restricts financing to 50% of the project cost. There is no distinction in pricing methodology between intra-EU and extra-EU lending, which is often below other financial intermediaries because of the EIB cost recovery pricing model, based on low administrative costs and - due to the high level of guarantees and solid rating requirements - limited costs for risk provisioning (accruals) and low funding cost due to its standing as a AAA rated IFI.

The EIB's activities are to a large extent demand-driven and the institution considers itself a policy-taker of the EU policy agenda. Each year, the EIB establishes overall financing targets per region and per business area in consultation with the European Commission but there are no further specific ex-ante country or sector strategies guiding the selection of projects. Once at the project appraisal phase, the contribution to EU priorities and country development objectives is reviewed also by the European Commission. For projects envisaged to be financed under the EU budgetary guarantee, the Commission has a possibility to veto the guarantee cover by issuing a negative opinion.

The **EBRD** is the other key European development financing institution. It was established to foster transition towards open market-oriented economies and the promotion of private sector development in transition economies. The Agreement establishing the Bank provides the mandate for its geographical operations. Its current geographical mandate is limited to a number of countries in Central and Eastern Europe (EU and non EU), the Southern and Eastern Mediterranean and central Asia. Its total annual lending operations amount to around EUR 9.5bn with 70% of its portfolio of operations outside the EU.

In its work it uses three main instruments - investment, policy engagement and technical assistance. The EBRD produces country strategies and evaluates projects on the basis of the structural impact on the recipient economy, deploying one third of its staff in the countries of operation to participate in the design of reforms and mechanisms to support development. It currently has 53 resident offices in its 38 economies. This allows it to originate projects in more remote or disadvantaged regions and undertake smaller deals.

Its shareholding structure includes most developed countries and all its countries of operation. While the EU members, together with the European Commission and EIB, must at all times hold a majority of the total subscribed capital of the Bank, the combined EU votes fall short of any qualified majority threshold to enforce strategic decisions without support from the other key shareholders, a feature that will be reinforced in the event that the UK leaves the EU[21].

With a strong focus on the private sector and a sizeable portfolio of public sector projects, it applies market-based pricing aiming at ensuring financial sustainability of projects and the necessary additionality. It has been increasingly involved in green projects, with a current green finance ratio of around 40 per cent of total annual investment. Most of its activities are in middle-income countries, but it also has some limited experience in economies with strong (e.g. Tajikistan and Kyrgyz Republic) and medium-strong (e.g. Egypt and Tunisia) fragilities. It is willing to accept a higher level of credit risk in its development activities without the need for additional guarantees from shareholders. Acting without benefiting from guarantees and doing banking mainly on its own balance sheet means at the same time that the EBRD has larger capital requirements and higher costs for covering (potential) losses than the EIB. The EBRD is selective when it comes to accepting clients, requesting appropriate security. Sensitive to its country exposure, it applies state-of-the-art risk-mitigation techniques. As a result, EBRD loans are more expensive than EIB loans and the EBRD's operations in lower-rated countries (e.g. OECD country rating 6 and 7) with lesser risk-mitigation possibilities are limited.

Finally, an important component of the European financial development architecture is the system of **National Development Banks and Finance Institutions** (see Annex 5 for the full list). In addition, there are a number of development cooperation agencies of Member States with significant resources. A large majority of Member States already have specialised development entities to implement their development policy priorities. The NDBs and DFIs account for a substantial share of the EU's funds channelled through financial instruments (e.g. loans, equity and quasi-equity investment, and insurance and guarantees mechanisms) as well as a large part of the human resources and expertise deployed. They are also channelling a large part of the EU budget through financial instruments in sub-Saharan Africa, giving them a central role in implementing EU development policies. European DFIs provide a large proportion of all DFI/MDB risk capital investments (75% of equity and quasi-equity), which is of key importance for project and SME development.

4.2 Strengths and weaknesses

The Group assessed the key aspects of the main relevant European institutions against the requirements of a system that delivers as developed in Section 3. In doing so, it also drew on interviews with the major stakeholders as well as on existing reports and research. This section does not attempt to provide an exhaustive analysis of the different institutions' overall strengths and weaknesses. Rather, it focuses on those aspects which appear to be important from the point of view of the European system as a whole, and how it can be made more effective in addressing European development and climate policy priorities.

[21] Today EU-28 has 63.1%, including the shares of the European Commission and the EIB; after the expected UK exit from the EU this percentage will decrease to 54.5%. It is important to note that for any strategic decisions, the lowest majority threshold is 66%.

European Commission

While the European Commission plays a central role in the European system, the institution often lacks a single voice on development. Its rather complex structure of developing policy steer with many Directorate Generals (DGs) involved does not facilitate policy coherence and efficiency. The larger part of its budget for external development is administered by two DGs - DG International Cooperation and Development (DEVCO) and DG Neighbourhood and Enlargement Negotiations (NEAR). In addition, several other DGs are involved in channelling funds for specific development programmes and interacting with partner IFIs (such as EIB, EBRD, International Monetary Fund (IMF), World Bank Group (WBG)), Member States' development agencies (e.g. AECID), bilateral finance institutions (including AFD, KfW, CDP, the Association of bilateral European Development Finance Institutions (EDFI)) and private donors.

In the European Commission 2014-19, the High Representative of the Union for Foreign Affairs and Security Policy was responsible in her role as Vice-President was responsible for steering and coordinating the work of all Commissioners with regard to external relations. The perception is, nevertheless, that this has not been sufficient to co-ordinate development policy well. The number of players within the Commission also results in top-heavy bureaucratic coordination mechanisms leading to weak overall institutional flexibility, hindering visibility, coherence and efficiency as well as causing a potential loss of focus on the main policy imperatives. It is not easy to identify who is the main interlocutor for development issues in Europe.

In the implementation of external development policies, financial allocations have hitherto been defined rigidly along thematic and geographic axes and made available under restrictive terms and a complex set of rules, often causing a slow roll-out. The situation is expected to improve substantially after the adoption of the new NDICI proposal, which includes an improved programming of resources and a fine-tuned EFSD+ governance, covering most of the EU's external action envelopes, which are currently under a variety of governance settings and sets of rules.

In terms of expertise, the European Commission lacks extensive experience in dealing with the private sector and has limited banking and risk-management knowledge.[22] Through its many specialised DGs, it can build on its sectoral expertise to support specific reforms in partner countries, and particularly in the EU Neighbourhood, in areas such as energy, transport or efficient financial market regulation. It has also made substantial efforts to improve its development expertise and coordination across Commission services in order to build on existing expertise and improve policy coherence in both formulation and delivery of policy.

The extensive presence of EU delegations across the world, through the EEAS, with staff from different institutions and with diverse competences, is a clear advantage for the system. The Commission is working with the EEAS on the definition of country and regional strategies, building on the knowledge within delegations to identify the country and regional policy priorities and to adjust development instruments in view of local needs so as to increase

[22] It currently borrows such expertise from Member States and the EIB in the context of the EFSD governance through the Guarantee Technical Assessment Group (GTAG), which the NDICI proposal suggests should move its secretariat from the EIB to the European Commission and cover the entire EFSD+ range of activities.

ownership, while ensuring a holistic approach and policy coherence (e.g. across EU policies in areas such as trade, energy and agriculture).

EIB

The EIB is the lending arm of the EU. Over the last six decades of operation, it has developed very good expertise in sovereign lending and large public infrastructure projects. Its private sector investments are mostly low-risk and large-scale. In terms of policy coherence, it follows EU policies and mandates by institutional design as a 'policy taker' and is not involved in the design of country or regional strategies. In the implementation of regional and thematic investment windows, it applies discretion on the selection of investment opportunities.

The composition of its Board of Governors, representing exclusively finance ministries, is not development-oriented and there have been no significant efforts to apply a more development-oriented approach to EIB operations outside the EU, possibly because they still represent only a small share (around 10%) of the overall portfolio.

The EIB is not currently well equipped to take fully into account the development impacts of its lending operations, especially in sub-Saharan Africa, partly because it has limited staff on the ground outside the EU. It often does not link specific lending to overall policy priorities at the local level. In terms of project assessment, it performs comprehensive technical analysis at the project level but has limited overall development focus on impacts at the macro or systemic levels.

The EIB has the instruments, balance sheet and expertise to have a good risk-taking capacity. Its adoption of best banking practices is useful in the EIB's traditional business within the EU but implies an institutional culture prone to risk aversion, partly due to guarantee requirements.

As to coordination with other European DFIs and IFIs, there is some degree of cooperation with EU Member States' institutions, by procedural design, but no close interaction with DFIs and IFIs on the ground and no significant participation in country policy debates, resulting in practices that are sometimes criticised by other institutions as sub-optimal in a development context. For example, the low pricing of loans for private-sector operations may to a certain extent crowd out other private-sector actors. A development bank approach would be sensitive to avoiding providing finance at rates that undercut available local private finance. One needs to ensure that there are no managerial incentives to promote the achievement of high lending volumes which again would favour public-sector financing instead of private-sector operations. Both would be harmful to private-sector development in less developed markets.

EBRD

The EBRD is a MDB owned by 69 countries, the European Union and the EIB. Europeans enjoy a simple majority on its board and need the support of non-EU countries to steer strategic decisions. This constraint may affect the implementation of EU priorities.

In terms of development impact, with an extensive presence on the ground, the EBRD has a good record at both project and macro-economic levels, with good private sector and sub-sovereign experience and competent preparation of country strategies to support transition. However, it is unclear whether its good record in delivering impact in mostly middle-income countries can easily be extended to countries with significant institutional fragilities and particular challenges related to private- and public-sector activities and in development areas different from those involved in transition strategies (e.g. social policies). The approach to clients, design of contracts and management of risks in such contexts is significantly different from the countries in which the EBRD has been operating up to now and would require organisational adjustments. With entry into markets with more limited risk-mitigation opportunities, as is the case with the EU development country and regional priority areas, it may be challenging for the EBRD to take country and project risks on its own balance sheet based on its current policy framework. Changes are likely to be necessary, including greater reliance on EU budget grants and guarantees. The EBRD business model would, therefore, need to adapt, leading to substantial institutional changes. The bank has, however, shown a good capacity to adapt to new contexts in its latest geographic mandate extensions.

The EBRD is also generally responsive to EU policies, even though EU Member States are often not well coordinated in its board because of divergent interests. Coordination challenges could become even more consequential after UK's expected exit from the EU.

Its current business model relies on grant funding for technical assistance, including project preparation, with more limited public-sector financing. It is characterised by financial innovation and development-friendly policy choices. An example is the use of local currencies to facilitate the development of financial markets in the countries of operation and avoid crowding out the private sector.

The EBRD also enjoys a good level of coordination with other IFIs and participates actively in the international policy dialogue and multilateral decision-making. It also designs its pricing strategies carefully, and contributes to the evolution and implementation of international standards and practices to maximise transition impact, inter alia through reforms aimed at improving the general business climate in countries of operation.

Technical expertise is strong in relation to the development of the private sector, even if it does not have comprehensive sector coverage and is weak in, especially, social sectors such as health care and education. It has good risk and debt sustainability management capacity.

European Development Finance Institutions

The relative weight of European DFIs in the overall EU development architecture has seen incremental growth over time and their role in the system is becoming more important. There is significant heterogeneity among them in terms of size, legal status and thematic and institutional focus. They are generally leaner than the EU-wide institutions and have more operational flexibility and more streamlined governance structures. Overall, they have an important role in the international development system as regards geographical coverage and resource mobilisation.

Some specialise in mobilising private resources and supporting private-sector activities in developing countries, areas not well covered by traditional donor agencies. They have a good level of presence on the ground, including sub-Saharan Africa, collectively wide sectoral coverage and good development and risk-related expertise. They have varying degrees of risk tolerance, with some covering states with fragilities. They implement a big part of EU's blended finance activities and have had an important role in deploying the EU guarantees available under the EFSD through the provision of guarantee programmes. As for private investments, DFIs have a positive impact on the local financial sector, usually participating actively in thematic policy dialogues, but are typically little involved in macroeconomic policy dialogue.

There are varying levels of transparency and inclusiveness in their governance structures and decision-making processes, room for improvement in evaluating the development impact of their operations, and a need for better cooperation with other development actors. The European DFIs are the most active institutions in the private sector in Africa. Their activities are increasing fast in Africa and in fragile states.

Their institutional design is diverse, and their boards have a good mix of professional and political appointees. Given their leaner structures, DFIs tend to have good financial innovation capacity. Some of them have access to grants for technical assistance and some rely on the EU budget. They have a significant appetite for risk taking in the private sector, albeit less so for country risks. Depending on their financial strength, some also finance or co-finance larger projects.

In terms of coordination, they are often aligned with the EU and other national institutions, in addition to IFIs, with which they extensively co-finance. They tend not to be part of the global policy dialogue and strive to follow non-distortionary pricing strategies, international standards and practices.

In terms of technical expertise, they have good knowledge and development expertise overall. They have good risk and debt sustainability management capabilities at project level. For debt sustainability analysis, they rely on the expertise of other institutions such as the IMF.

4.3 Systemic gaps

The EU has shown clear leadership in its efforts to reach global agreements on sustainable development and climate change, as well as in shaping the international humanitarian landscape. However, there are also clear systemic gaps in the European financial architecture for development, especially with respect to the current challenges described in Section 2. The most evident institutional gap is the **absence of a strong policy centre in the European system** to define and streamline development policies and strategies through a coherent development narrative. The **development dossiers are not sufficiently prominent in discussions in both the European Council and the Council of the European Union**, resulting in limited political guidance and prioritisation.

Even though the European Union and its Member States are present in Africa and in other developing regions, and taken together are the largest ODA contributors, EU funding is often channelled through a **multitude of actors**, including European IFIs, national and multilateral development agencies and financial institutions. This makes it difficult consistently to ensure overall policy coherence. In addition, the banking and pricing strategies of the various

European financial actors are not harmonised and sometimes lead to **unnecessary competition on standards or conditionality**.

Africa and the Neighbourhood are the priority geographic areas for the European Union. They require the institutions, policies and financial instruments to address the continued need for an economic and political transformation, capital market development, and climate change mitigation and adaptation. The Group considers that while collectively the European actors have at their disposal a wide range of financial instruments and know-how, the **main European IFIs**, EIB and EBRD, have **little or no experience working with low-income countries and countries with fragilities**, which characterise the key region of sub-Saharan Africa. Nor is there a single, well-capitalised development financing entity which has the full set of financial instruments, and could complement the EU policy centre in a development financing centre function.

The **European Commission** provides an important policy steer to the system, coordinates the development of country strategies and programming efforts. It has introduced important new elements to the financial architecture by opening the access to EU guarantees to other actors, but its **financing** is often **difficult to access for less sophisticated institutions** due to the heavy administrative procedures. The **EIB** provides liquidity and cheap loans, but has **limited development expertise** and **structural risk aversion** which needs to be re-considered when operating in a development context. The **EBRD** is too small, is **not a fully EU-controlled bank** and currently also has limited experience in operating in low-income and fragile countries.

The **lack of strategic coordination** between the main EU financial actors of the system, including on climate investments, is evident in their current plans for institutional development, which are all aimed at addressing some of the gaps highlighted here, but are not necessarily consistent with and complementary to each other. Past attempts to address these issues through the 2009 Memorandum of Understanding between the EIB and EBRD have, in the view of outside partners, been ineffective in resolving these issues. Looking ahead, both the EIB and EBRD are putting forward proposals to expand into similar areas, which would lead to increased overlaps, inefficient use of European resources and further damage to the desired visibility of EU development financing abroad. The European Commission (through the NDICI reform proposal) is engaged in an extensive restructuring of coordination and governance tools to increase the flexibility and impact of its resource allocation. However, its plans to develop financial expertise such as risk management and pricing of collateral and guarantees internally need further work.

OPTIONS FOR IMPROVEMENT AND WAY FORWARD

5. Options for improvement and way forward

The analysis shows that the functioning of the current system urgently needs to be improved if it is to respond adequately to the development challenges and policy priorities of the European Union. There is room for consolidation of the external development activities of EU financial actors and for strengthening of the policy steer over the institutions to ensure that they respond better to European priorities. As highlighted in the previous section, the different institutions have different strengths, expertise and specialisation. Significant institutional changes are necessary but they require time. Given the urgency of addressing the development priorities of the European Union, however, a number of very important short-term steps can be taken to improve the situation and significantly enhance European financial architecture, while major institutional restructuring is being prepared.

5.1 Immediate steps to take

Create a strong policy centre in the EU through:

- **Reinforcing ownership of development policy by both the European Council and the Council of the European Union**. The European Council should strengthen its annual discussion on development issues in order to give clear political and strategic guidance. On that basis, the Foreign Affairs Council in its development configuration should provide regular policy steer and strategic guidance, and assess the implementation of EU development policy and funding, also based on systematic development risk mapping by the European Commission.
- **Creating an overall branding and narrative for the EU global development strategy and all related EU development financing** (e.g. China's Belt and Road Initiative), centred around the key aspects of the EU's development goals. All actors in the EU development financing system (EU and national) should be incentivised to make use of such a joint 'label', with specific strong incentives for actors making use of the EU budget (e.g. through NDICI). This should aim at increasing awareness of EU development policy and actions globally as well as within the EU.
- **Strengthening the role of the European Commission at the centre of the EU development financing architecture**. With full respect for its institutional independence, a more visible single interlocutor on development issues and better internal coordination of all actors working on development issues should improve the coherence of policy delivery and implementation. The NDICI proposal, which combines all financial instruments into a single instrument with a single management committee, can be a positive step in that direction.
- **Strengthening development capacity, and in particular financing know-how, within the European Commission to a level corresponding to its fiduciary responsibility**. The Commission should ramp up its capabilities to evaluate projects and investment proposals, including in relation to private sector development, financial management and consistency with EU policies. This should achieve a better reflection of EU priorities in EU spending, notably with respect to spending through implementing partners.

- **Formalising existing mechanisms or, where necessary, setting up new mechanisms for coordination among EU board members in the various multilateral development institutions** with a view to collectively reflecting, defending and building strong support for the EU development priorities across all relevant global institutions.

- **Creating an annual EU implementing partners' meeting,** mandatory for implementing partners of the EU NDICI budget, bringing together all relevant actors at management level. This forum should be used to discuss issues relevant for the functioning of the EU financial architecture by the development partners concerned, e.g. harmonisation of procedures, standards, pricing methodology, joint approaches towards non-EU IFIs, etc.

- **Creating a European knowledge hub for development** - a think tank/institute with the ambition to become an intellectual centre for EU development research and discussions. This can build on existing similar initiatives, but would need to have the necessary political support to quickly obtain the credibility and influence necessary for it to fulfil its ambition.[23] This hub could contribute to the setting up of a single entry database with information on major on-going and planned projects and financing conditions, which would make possible the measurement in terms of size, impact and regions/sectors of operation of the European system as a whole.

- **Encouraging the European Commission to invest in the development of country platforms for improved development impact in recipient countries,** on the basis of the proposal by the G20 Eminent Persons Group. Such platforms would also serve as vehicles for coordination among EU actors in a framework fully owned by recipient countries.

Use NDICI as a catalyst for improvement by:

- **Further strengthening cooperation between European DFIs, national development agencies, the European Commission, EBRD, and EIB**, building on their respective strengths, competences and mandates, thus reinforcing the system perspective among all European actors, and ensuring policy coherence. This is even more important in low-income and fragile environments where the capacity of local partners is weaker. Request, incentivise and give preference to joint or parallel financing proposals submitted by more than one institution.

- **Ensuring that the annual programming for the NDICI implementation is adequately flexible in order to provide for possible institutional changes during the next MFF (2021-27).**

- **Supporting a provision in the NDICI Regulation** (Art.30 in the Commission proposal) **which provides the possibility of contributing to the capital of a development bank**.

[23] There is high-quality research across the EU, but little coordination and contact with policy-making. Current structures such as the European Think Tanks Group (ETTG) could be reinforced.

This would enable the Commission to participate in a scenario based on the options outlined in Section 5.2.

- **Adequately reflecting the EU's development priorities in relation to Africa, climate change and biodiversity in the geographic and thematic allocations**. The amounts proposed by the Commission should be reviewed accordingly, also ensuring that climate adaptation gets a large share for operations in Africa.

- **Setting common standards and supporting private-sector development:** financing proposals by implementing partners should only be considered, if the implementing partner subscribes to the 'Blended Finance Principle' as currently being developed by international bodies[24].

- **Increasing the use of joint programming in the planning of development cooperation** by EU development partners working in a partner country, and in particular also by the EIB and EBRD as far as possible. This should ensure greater partner country ownership, joined-up dialogue and decision-making, better-synchronized programming cycles, and greater mutual accountability through joint results frameworks.

- **Supporting the notion of 'open architecture',** intended as open access to EU budgetary guarantees and blending contributions for European IFIs and DFIs, as an instrument for stimulating innovative ideas and the best 'value for money' solutions.

- Notwithstanding support for open architecture and with full awareness of the role played by non-European actors in delivering on the EU funds for development, a **European preference** should nevertheless be applied, unless reciprocity is ensured.

- **Supporting the 'policy first' approach in deploying EU budgetary guarantees** as an instrument for EU external policies rather than as tools addressing the specific needs of the implementing financial institutions. As a general rule, all projects and programmes presented by the implementing partners for NDICI support should be fully in line with the EU's country strategies.

- **Developing a scheme incentivising implementing partners to provide access to financing to other implementing partners**. This would allow smaller institutions from different EU Member States to step up their activities.

Until a political decision at the level of the European Council is taken on institutional restructuring of the main EU development financing actors:

- The EIB and EBRD should be tasked with implementing the short-term measures under 5.1. of this report as rapidly and transparently as possible. Any Memorandum of Understanding (MoU) on the subject between the two institutions should not go in the direction of preserving existing overlaps of activities but should address ways to establish a clearer separation of such activities in the medium-term. The competent governing

[24] E.g. DFI Working Group on Blended Concessional Finance for Private Sector Projects

bodies of the two institutions should receive reports on such a MoU and should be provided with regular updates on its implementation.

- The European Commission should be requested to implement the relevant measures outlined in Section 5.1.

- The mandates of the EIB and the EBRD should not be extended in a way which impedes decisions on institutional changes that governments would take on the basis of this report.

- In order to ensure the transparency of its operations, the EIB should report all of its external activities (current external lending mandate and own balance sheet) in a segmented balance sheet.

5.2 Suggested institutional changes

The EIB and the EBRD were founded as 20th century institutions focusing on the issues of investment and transition respectively. The challenges of the 21st century absolutely require reforms of these institutions. To be fit for purpose, the Group is of the opinion that there should be one single institution in the medium term as the European actor outside of the EU for climate and development financing. To address the issue of systemic gaps, notably the lack of knowhow specific to development finance in low-income countries, the mandates, instruments, capitalisation and governance of the institution entrusted with financing outside the EU would need to be significantly changed. While both institutions advocate a strong role for themselves, their existing strategies do not properly address these gaps.

Based on the mapping of the system and the assessment of the features of a European system that delivers (see Section 3), it is clear that **maintaining the status quo is not an acceptable option for the future**, especially in view of the NDICI reform proposal.

A **single, well-capitalised development entity** should become the natural development finance centre, alongside the European Commission in its role of policy centre. It should have at its disposal the **full range of financial instruments** to support development strategies and the climate agenda. Importantly, sub-Saharan Africa requires significant grant and highly concessional loan financing. It needs to manage portfolio risks in challenging environment, undertake internal and external policy dialogues and support policy reforms, inter alia with a view to providing the necessary conditions for **crowding in private-sector finance in collaboration with European DFIs.** As an important actor in the global financial development architecture, the entity would have to collaborate closely with other relevant actors to be successful. Mechanisms should be devised so as to avoid crowding out existing DFIs. Improving the coherence of the European development finance system is a pre-condition for Europe to play the important role it deserves in the global development finance system. The ownership of such an institution needs to be inclusive, but at least a controlling European majority is essential in order to guarantee that EU funds are used to deliver consistently on EU policies. The direct participation of Member States in the shareholding is important, not least to guarantee the appropriate level of political governance. Participation by countries of operation could also improve ownership.

Against this background, after discussions on all possible scenarios for improvement, the Group analysed the following three options to build such an **European Climate and Sustainable Development Bank** in detail:

- building on the EBRD and the external financing activities of the EIB;
- pulling together the external activities of the current EU financial institutions in a new financial institution with mixed ownership ;
- transferring all external activities of the EIB into an EIB subsidiary with significant other shareholders.

These options have been assessed against the challenges highlighted in Section 2 and the features needed for a European system that delivers, as described in Section 3, including development impact, policy coherence, institutional design, effective coordination and technical expertise. These should be complemented by additional considerations regarding how any of these options would deliver better visibility of EU development financing and the degree to which they take advantage of existing EU institutional capacities.

All three options are **associated with additional costs**, including significant capital needs, annual contributions as well as **political and legal complexity**, and **they all need time to be implemented**.

The present endowment of NDICI does not yet reflect the possible existence of a European development financing institution with the priority of, inter alia, sub-Saharan Africa LICs. If that were to be the case, competition for scarce resources will likely become fiercer and access for banks operating in middle-income countries will thus become more difficult.

Option 1. Create the European Climate and Sustainable Development Bank building on the EBRD and the external financing activities of the EIB

Legal status, shareholding and governance

For the EBRD to be a fully-fledged European Sustainable Development and Climate Bank, a sufficiently strong EU majority would be needed in order to guarantee that the EU and its Member States, together with the EIB, have the necessary votes to pass strategic decisions[25].

Under the rules of the bank, a sufficient majority would only be realistically feasible through a capital increase or withdrawal of non-EU shareholders or a combination thereof.[26] The difficult political negotiation necessary for obtaining an agreement by non-EU shareholders should not be underestimated.

[25]According to the current rules, a majority of 66.6% is necessary for the Board of Directors to approve the budget, capital increase requires approval of 66.6% of Governors representing 75% of voting power and extending the geographical mandate, and 85% for amendments of the existing geographical mandates. In addition to voting shares, the EBRD Agreement establishes the instrument of double majority, meaning that in addition to voting shares a defined number of members is required to approve strategic decision.

[26] The Agreement establishing the EBRD does not allow the transfer of shares except in the event of a membership withdrawal or suspension, in which case the shares of the member go to a pool of unsubscribed shares. These must be offered to all shareholders on a pro-rata basis.

Mandate

The geographical mandate of the current EBRD would have to become global (reinforced majority necessary) but the main focus should initially be on sub-Saharan Africa and climate and evolving with EU priorities. A modification of its Establishment Agreement to correspond to the new ambition for the bank would be necessary.

Business model

The current main focus of the EBRD on private-sector development and mostly middle-income countries would need to be substantially extended to public-sector operations, low-income and fragile countries. If the EBRD becomes the main vehicle of the EU development policy, its current policy model would need to reflect the EU's policy priorities and country strategies. A delicate equilibrium would have to be found between the EBRD's own strategies and the implementation of EU policy. Considerable rreliance on NDICI support would be the logical consequence. The location of the business unit responsible for these new policies would have to be decided on at a later stage.

Implications for the EIB

This scenario would imply the EIB transferring its external financing operations, and concentrating its operations on Europe and (pre-) accession countries only. Transferring the EIB's external portfolio raises significant questions on the transferability of guarantees, valuation, etc. One would need to study in detail to what extent and under what conditions the portfolio or parts of it could be transferred or would have to be run down on the balance sheet of the EIB. This would also imply the EIB ceasing to have access to the future External Action Guarantee under the proposed NDICI instrument. There could be consequences for the remaining EBRD operations in EU Member States (graduation).

Option 2. Create a new mixed-ownership European Climate and Sustainable Development Bank

An alternative option is the creation of a well-capitalised, new, mixed ownership European Climate and Sustainable Development Bank.

Legal status, shareholding and governance

The institution would effectively be a greenfield investment. The Bank’s shareholders could be the EIB, the European Commission, the EBRD, Member States, and others (e.g. DFIs), whereby the European Commission and the EIB, as 100% EU institutions, should have standard protection rights on the basis of their shareholding.

This option offers the possibility of designing management board and supervisory structure ('fit and proper') according to the size of the institution and the tasks ahead. The management board should consists of highly qualified professionals, and the supervisory structure would need to be sufficiently high-level, diverse and balanced as regards its expertise (development, private sector/ banking, government backgrounds) to provide sufficient political ownership..

The Bank should - like other IFIs - be exempt from supervision by the European Central Bank but should follow sound banking principles.

Mandate

The mandate of the new mixed-ownership bank would be global but the main focus should initially be on sub-Saharan Africa and climate and evolving with EU priorities, and the capacity to execute both private- and public-sector operations. The location of this institution would need to be decided on at a later stage.

Business model

A strong credit rating would be required for the entity to be comfortably able to access the capital markets for its borrowing.

The bank should fully engage in the global system through close cooperation with other financial actors (e.g. use the best experience on the ground in areas such as health and social investments).

A mix of both financing and development expertise, including in the governance structure, would be crucial in order to allow the entity to become a true development bank. The entity should ensure an appropriate risk-taking capacity so as to maximise impact and avoid crowding out.

The set up costs would consist of capitalisation, staffing, and administration.

Management, staffing and location

Transfer of staff from the various shareholders would be a necessary step when setting up the new entity. A strong presence on the ground in countries of operation would be necessary. This could be done by making use of Commission, EIB and EBRD offices and staff where already available and rolling out presence in other COOs.

The physical location of the new entity's headquarters would be crucial for its success as it would need to be conducive to attracting both financing and development expertise alike.

Implications for the EIB and the EBRD

This scenario would imply the EIB discontinuing its external financing operations, and concentrating its operations on Europe and (pre-) accession countries only. Transferring the EIB external portfolio raises significant questions on the transferability of guarantees, valuation, etc. One would need to study in detail to what extent and under what conditions the portfolio or parts of it could be transferred or would have to be run down on the balance sheet of the EIB.

The EBRD would not make any extension of its current geographical mandate and might have to run down part of its present portfolio in certain countries of operation. Operations in any new countries of operation would be done via the new entity.

Option 3. Create the European Climate and Sustainable Development Bank based on a EIB subsidiary

The EU's external development financing could also be channelled through a dedicated EIB-subsidiary. Such an option was considered in detail in the Camdessus Report and has received increasing attention in recent months as a result of a series of proposals by the EIB itself.

Legal status and shareholding

The EIB should be a minority shareholder in such a new entity, allowing for meaningful participation by the European Commission[27], Member States, and NDBs.

Article 28 of the Protocol on the Statute of the EIB provides the legal possibility of establishing a subsidiary with legal personality and financial authority. Such an entity can be structured in a flexible way as regards the mission, capital, shareholding, governance, financial resources, staffing and location of the seat. The EIB's participation in the capital and governance of the new entity would be decided by the EIB Board of Governors acting unanimously.

Mandate

The mandate of such a subsidiarywould be global but the main focus should initially be on sub-Saharan Africa and climate and evolving with EU priorities, and it should have the capacity to execute both private- and public-sector operations.

Business model

Important issues to be considered are the necessary change of EIB in its development focus (sub-Saharan Africa), policy first approach, adaptation of its pricing model, preparing the institution for efficient private sector development without crowding out the private sector, and building up its local presence.

It would benefit from the existing risk-management capacity and climate expertise within the EIB, but given the development context it needs to address, it would need to put in place a different risk culture than that of the EIB, being less risk-averse and more flexible in its target countries/regions of operation, including in areas with fragilities. This, however, would seem difficult unless the subsidiary adopted a substantially different culture, management and governance structure from that of the EIB as a whole. The division of labour between the new institution and the Commission in operational and risk-assessment responsibilities would also be a key question for its success.

The EIB Group would remain a substantial beneficiary of the External Action Guarantee within the future NDICI financing instrument.

[27] The Commission proposal for the NDICI Regulation (Art.30) provides for the possibility of using a part of the resources of that Instrument to contribute to the capital of a development bank.

The location of such a subsidiary would be important in terms of access to development expertise and could be different from the location of the EIB Group. As the activities of the subsidiary rolled out, expansion of local presence in the future priority countries of operation would be necessary.

Implications for the EIB and the EBRD

The EBRD would not make any extension of its current geographical mandate and would have to run down part of its present portfolio in certain countries of operation. Operations in any new countries of operation would be carried out via the new subsidiary.

The EIB would have to separate its external development activities from its current balance sheet. The External Action Guarantee under NDICI would have to be carefully readjusted to make sure that scarce resources from NDICI were applied according to development priorities.

Pros and cons of the outlined options

The EBRD-based scenario builds on the European institution with the strongest development banking culture and expertise, including on policy dialogue, the development of country strategies and the provision of associated technical assistance, while aspects of regional and sectoral know-how would need to be improved. These factors make this the best of the three options for crowding in the private sector. However, it is clear that the current EU majority and the governance thresholds do not ensure that EU interests and policies are safeguarded. The additional capital necessary to increase the EU's majority, resting on crucial assumptions relating to the cooperation of non-EU shareholders, depends on the desired threshold selected. Achieving cooperation with non-EU shareholders would involve complex political discussions and strong political will. There is also the danger of increased free riding on European budgetary resources by non-EU shareholders.

Setting up a new European Climate and Sustainable Development Bank (option 2) allows for a tailor-made design, fit for purpose from the start. However, as with any greenfield investment, it requires significant time to roll out and scale up and to develop in-house expertise. It involves large setting-up costs, including those related to building up a geographical presence and back-office services. While in principle such an institution can draw on the expertise of its main shareholders, the motivation for the EBRD and the EIB to devote resources to such an entity cannot be taken as given.

Option 3 aims at creating a European Climate and Sustainable Development Bank on the basis of an existing institution whose main focus is not development. That being so, it would require considerable rewiring of business and managerial practices, and a different approach to risk-taking. This would be the quickest and technically simplest option to pursue, but also the option with the highest risk of ineffectiveness and uncertainty as to the development impact.

While option 3 can be set up autonomously by members states, both options 1 and 2 require significant cooperation from non-EU countries, for which the incentives would be have to be built.

5.3 The way forward

This report has analysed the existing European financial architecture for development and spelled out immediate steps to enhance the system as well as options for institutional change. All three options eliminate a big part of the existing fragmentation and provide the institutional foundations for covering the significant gaps in the present system. All of the options should ensure value for money for the European taxpayer and development impact.

In the short term, policy-makers should take all the measures described in Section 5.1 as they are pre-conditions for any of the options to be successful.

Pursuing any of the scenarios outlined above involves a political process going beyond the EU. The Group considers that option 1 has clear merits in terms of development impact. The EBRD would have a reinforced role in that scenario as compared to an otherwise weakening position in the long run in the other scenarios. The political uncertainty as regards ensuring EU control needs to be resolved.

For option 2, the costs of greenfield investment must be weighed against the benefits of a tailor-made institution.

For option 3 to ensure value for money, its set up and governance would have to depart substantially from the present EIB model.

Noting that discussions on the future scope of the activities of the EBRD and the EIB have started, we recommend that **feasibility studies on all options** be rapidly commissioned from an independent provider. We recommend that this process be overseen by a Steering Group to be set up by the Council. The terms of reference for these studies should be drafted by the European Commission and approved by the Council of the European Union. The results of the feasibility studies should delivered by the end of 2020.

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Abbreviations

ACP	African, Caribbean and Pacific Group of States
AECID	Agencia Española para la Cooperación Internacional y el Desarrollo
AFD	Agence française de développement
CDP	Cassa depositi e prestiti
COOs	Countries of operation
DEVCO	European Commission's Directorate-General for International Cooperation and Development
DFIs	National development finance institutions
DGs	Directorate Generals of the European Commission
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EDFI	Association of European Development Finance Institutions
EEAS	European External Action Service
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus, the successor of the EFSD[28].
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
ELM	External Lending Mandate[29]
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
IFIs	International Financial Institutions
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
LICs	Low Income Countries
MDBs	Multilateral Development Banks
MENA	Middle East and North Africa
MFF	European Union Multi-annual financial framework
MoU	Memorandum of Understanding
NDBs	National Development Banks
NDICI	Neighbourhood, Development and International Cooperation financial instrument[30]
NEAR	European Commission's Directorate-General European for Neighbourhood Policy and Enlargement Negotiations
NGOs	Non-governmental organisations
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
UN	United Nations
WBG	World Bank Group

[28] Part of the NDICI proposal.
[29] Decision (EU) 2018/412 of the European Parliament and of the Council of 14 March 2018 amending Decision No 466/2014/EU granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union
[30] COM(2018) 460 final

Annex 1. Tasks and mandate of the Wise Persons Group

Council Decision 2019/597 of 9 April 2019[31] established the High-level Group of Wise Persons on the European financial architecture for development.

Article 1(2) defined its **tasks** as follows:

> *The task of the Wise Persons Group shall be to submit to the Council an independent report in accordance with the terms of reference set out in the Annex to this Decision. The Wise Persons Group is established up to the fulfilment of its mandate as defined in the terms of reference and in accordance with the deadline set out therein.*

Its **mandate** is defined in the annex of the Council Decision (Section 3):

> *For the purposes of these terms of reference, the European financial architecture for development includes the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the financial instruments managed by the Commission. In its analysis of the European financial architecture for development, the Wise Persons Group shall take a system-wide perspective.*
>
> *In order to avoid duplication of existing activities and to encourage opportunities for further cooperation with other key development actors, the Wise Persons Group shall, in particular, consider how to maximise the added value of the European financial architecture for development within the existing diverse landscape of relevant national bodies in the Member States, such as national development financial institutions and agencies, and international and multilateral institutional bodies, such as the Council of Europe Development Bank or the World Bank. The Wise Persons Group shall also take into account the overall developments and needs that have shaped the global financial architecture for development over time and how the global financial architecture has been adapted to those developments and needs.*
>
> *The Wise Persons Group shall describe the challenges to and opportunities for rationalising the European financial architecture for development, dealing in particular with the respective roles of the EIB and of the EBRD. It shall recommend scenarios for the evolution of the European financial architecture for development, including recommendations on clear prioritisation and sequencing, taking into account the potential associated costs, on the basis of:*
>
> *– an assessment of the capacity of the current European financial architecture for development to deliver on the Union's policy priorities for external action and development, notably in terms of development impact, effectiveness, additionality, overlaps and value for money;*
>
> *– an analysis of the respective strengths and weaknesses of the mandates and instruments of all actors involved, including the risk management, governance, shareholding and incentive structures of the EIB and the EBRD;*
>
> *– an examination of the strategies put forward by the EIB, the EBRD and the Commission to further develop their mandates with a view to enhancing private sector development and sovereign lending, including, as appropriate, in least-developed and fragile countries.*

[31] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0597&from=EN

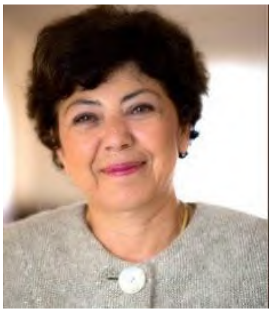
Annex 2. Members of the Wise Persons Group

Mr Thomas WIESER, Chair

Thomas Wieser was the Brussels-based Chairman of the Eurogroup Working Group and the EU Economic and Financial Committee for 8 years, retiring in 2018. Prior to that, he was Director-General for Economic Policy, Financial Markets and International Affairs at the Austrian Ministry of Finance. He has also worked in academia and banking. At present he is affiliated with Bruegel, a Brussels based Think Tank.

Mr José Antonio ALONSO

José Antonio Alonso is Professor of Applied Economics at Universidad Complutense de Madrid, he was Director-General of Economic Cooperation at the Instituto de Cooperación Iberoamericana, vice-chancellor at Universidad Internacional Menendez Pelayo and director of the Instituto Complutense de Estudios Internacionales (ICEI). He has been a member of the Committee for Development Policy (ECOSOC, UN) from 2007 to 2018 and member of the European Advisory Group of the Bill and Melinda Gates Foundation from 2012 to 2014. Currently he is a member of the Development Cooperation Council (Spain). His most recent books are: *Development* Cooperation *in Times of Crisis* (with J.A. Ocampo), Columbia University Press, 2012; *Alternative Development Strategies for the Post 2015 Era* (with G.A. Cornia and R. Vos), Bloomsbury Academic, 2013; *Global Governance and Rules for the Post-2015 Era* (with J.A. Ocampo), Bloomsbury Academic, 2015; and *¿Es útil la Ayuda al Desarrollo?*, RBA 2017.



Ms Monique BARBUT

Monique Barbut was UN undersecretary and executive secretary of the UN convention to combat desertification (UNCCD) from 2013 to February 2019. She has more than 30 years of experience in sustainable development, international diplomacy, governance and finance. From 2006 to 2012, she was the CEO and chairperson of the Global Environment Facility (GEF)and Vice-President at the World Bank. From 2003 to 2006 she was Director in charge of green finance, technology and climate at the United Environment Program (UNEP). Prior to that, she has occupied different high-level functions in the French government and at Agence Française de Developpement (AFD), the French aid agency dedicated to the financing of developing countries.

Mr Erik BERGLÖF

Erik Berglof is Professor, Director of the Institute of Global Affairs (IGA), at the London School of Economics and Political Science (LSE). Previously, he served as Chief Economist for the EBRD. He has published widely in top journals on economic and political transition, corporate governance, financial development and EU reform. He was a member of the Secretariat for the G20 Eminent Persons Group on global financial governance. He is also a Brookings Non-Resident Fellow and Fellow of the Centre for Economic Policy Research.

Mr Jacek DOMINIK

Jacek Dominik is a General Counselor in the Ministry of Finance in Poland. In 2014 he was a EU Commissioner responsible for EU budget and financial programing. Between 2006 and 2014 he held the position of Undersecretary of State in the Ministry of Finance, responsible for cooperation with the European Union and international financial institutions (EIB, EBRD World Bank, IMF, CEB). Before that Mr. Dominik was employed as Financial Counsellor in the Permanent Representation of Poland to the European Union in Brussels where he was responsible for EU accession negotiation and from 2004 as Counsellor Minister he coordinated the Budget and Finance Section. Mr. Dominik graduated from University of Warsaw, Faculty of Law and Administration, MA.

Mr Nanno KLEITERP

Nanno Kleiterp worked for almost 30 years with the Dutch Development Bank (FMO) of which 8 years as CEO (2008-2016).
He was Chairman of EDFI during 6 years, spread over different periods, latest 2017-2019. Before joining FMO, Nanno worked for 10 years in development finance in Latin America.
After retiring from FMO, he is active in different supervisory board positions in the Netherlands, Africa and Latin America. In 2016 he published a book "Banking for a Better World", also translated in Dutch and Spanish.

Mr Norbert KLOPPENBURG

Dr Norbert Kloppenburg first worked as a consultant in Burundi before transferring to the Konrad-Adenauer-Foundation in India. He has been working for the German Development Bank KfW from 1989 until his retirement in 2017 and served more than 10 years as a member of the KfW executive board in charge of its international activities. Dr. Kloppenburg was also a member of the Steering Committee of "wise persons" that was set up by the European Parliament and the Council of the EU to supervise the independent evaluation of EIB's financing activities outside the EU in 2009/2010. He joined the G20 High level panel on infrastructure investment in 2011 and the UN Intergovernmental Committee of Experts on Sustainable Development Financing in 2013 /14. He is on the board of several international NGOs and on the supervisory board of international companies. He holds a PhD in Agricultural Economics from the University of Bonn.

Mr Franco PASSACANTANDO

Franco Passacantando is currently senior fellow at the LUISS School of European Political Economy and scientific advisor at the Institute of International Affairs in Rome. Former Managing Director at the Bank of Italy, lastly in charge of relations with International Institutions. He was a former expert member of the EIB Board and, previously, Executive Director at the World Bank, where he has been Chairman of the Audit Committee.

Ms Susan ULBÆK

Susan ULBÆK has had a long career in development and foreign affairs. She held positions such as Under-Secretary Africa, Asia, America, Middle East, Under-Secretary Multilateral Affairs, HoD Development and Research, all in the Ministry of Foreign Affairs of Denmark. Most recently she was the Nordic-Baltic Executive Director at the World Bank Group Board. She hold a Master of Sc (Economics) from University of Copenhagen.

Annex 3. List of consulted parties and inputs received

The Wise Persons Group has benefitted from the expertise of the main actors of the European Financial Development Architecture through a consultation process, following the guidelines of Section 4 of the Annex of Council Decision 2019/597:

> *The Wise Persons Group may consult with the relevant Union institutions and bodies, including the European Parliament, the Commission and the EIB, and with the relevant national institutional bodies in the Member States, such as national development financial institutions and agencies. It may also consult the EBRD. Where necessary, the Wise Persons Group may invite other bodies, including from beneficiary countries, to provide written input or contribute during its meetings. The Wise Persons Group shall ensure transparency in the consultation process by listing all consultations in the appendix to its report.*

In particular, the following parties have been consulted:

European Commission

European Investment Bank

European Bank for Reconstruction and Development

World Bank

African, Caribbean and Pacific Group of States (ACP)

Eurodad (ONG umbrella organisation)

International Development Finance Club (partnership of 23 national development banks)

Written inputs have been received by the following parties:

European Development Finance Institutions (association of 15 development finance institutions)

Bill & Melinda Gates Foundation

Association for Financial Markets in Europe

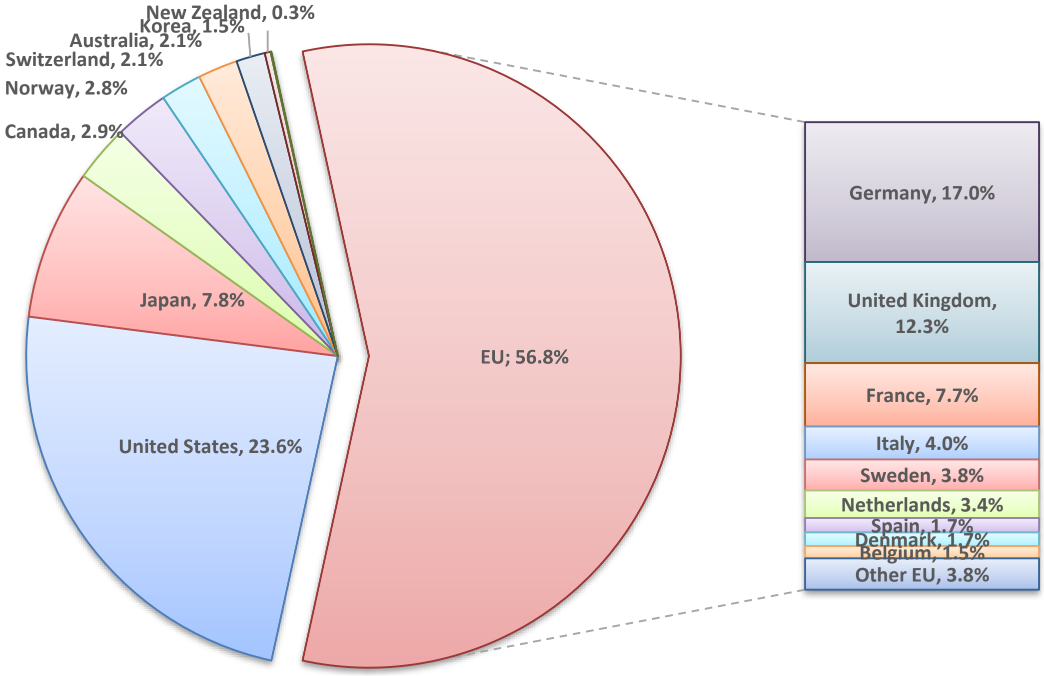
Joint contribution by CEE Bankwatch Network, Concord, Counter Balance, and Eurodad
Overseas Development Institute

Organisation for Economic Co-operation and Development (OECD)

The Wise Persons Group would like to thank all stakeholders for the inputs provided and the constructive dialogue during the consultation process.

Annex 4. Overview of the main European development financing actors

Global share of official development assistance (ODA) disbursements by DAC countries, 2017
(total: EUR 130.5bn)

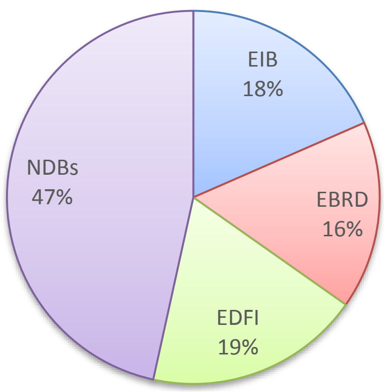


Source: OECD DAC (Development Assistance Committee) statistics

Extra-EU new commitments of EIB, EBRD, EDFI and NDBs in 2018
(in EUR bn)

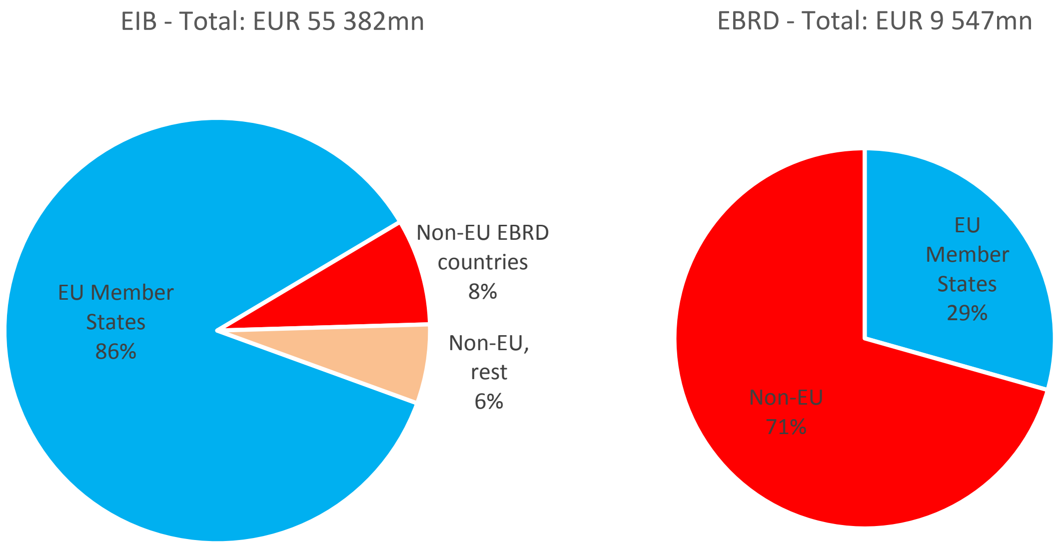
	Non-EU, EBRD COOs	Non-EU, rest of the world	Total share of extra-EU
EIB	4.4	3.3	18%
EBRD	6.8	0	16%
EDFI	1.1	6.7	19%
NDBs (AECID, AFD, KfW, CDP)	19.4		47%
Total	41.7		

Extra-EU new commitments in 2018Extra-EU activity



Source: Data provided by EIB, EBRD, ED

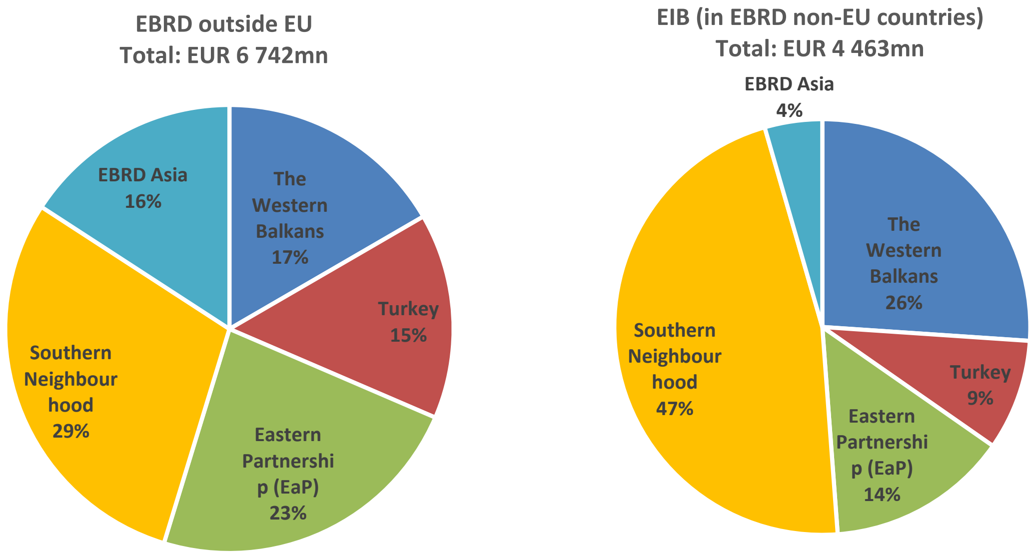
Regional allocation (intra-EU, extra-EU) of EIB and EBRD signed contracts in 2018



Source: Data provided by EIB and EBRD

Regional allocation outside the EU of EIB and EBRD signed contracts in 2018 in comparable sample of countries

(i.e. countries where the EBRD has a mandate to operate)



Source: Data provided by EIB and EBRD

Country presence of EIB and EBRD in 2018
(commitments in EUR mn)

Region	EIB	EBRD
EU Member States	47 820	2 805
EFTA	190	
Southern Neighbourhood	2 089	1 985
Eastern Neighbourhood	632	1 568
Pre-accession	1 166	1 121
Turkey	386	1 001
*EBRD Asia**	200	1 067
Rest of Asia	804	
Sub-Saharan Africa	1 664	
LAC	670	
Pacific	6	
TOTAL	***55 627***	***9 547***
TOTAL EXTRA-EU	***7 807***	***6 742***

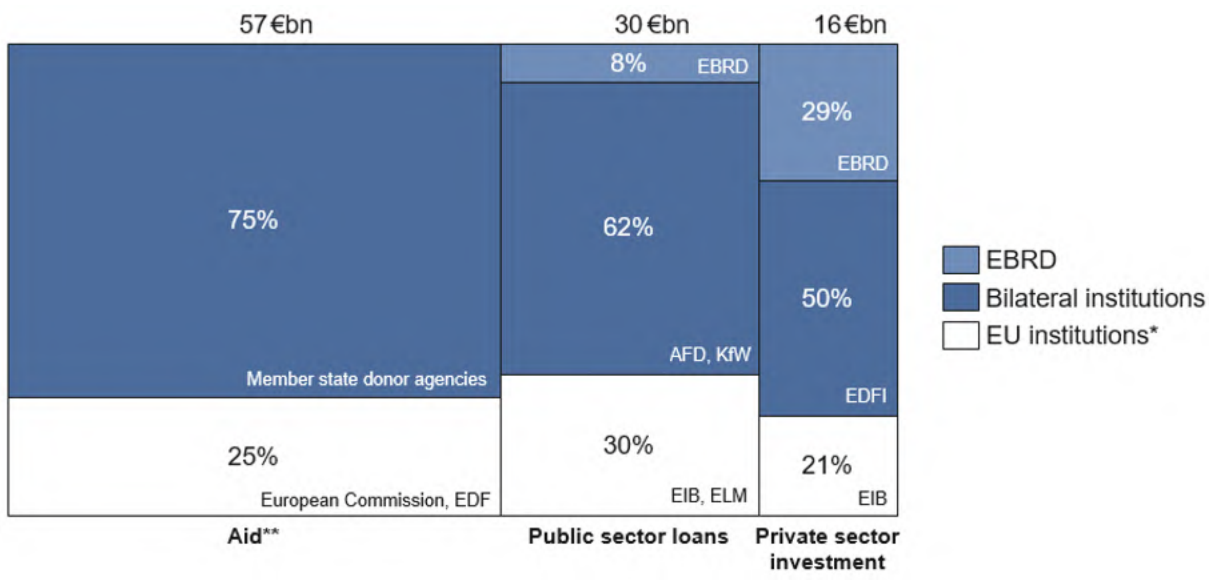
Source: Data provided by EBRD and EIB

Overall private sector operations by region outside the EU in 2018
(EUR mn)

Region	EIB	EBRD	EDFI	Total EU
Sub-Saharan Africa	934	-	2 657	3 590
Southern Neighbourhood	1 052	1 220	126	2 399
Eastern Partnership	302	914	468	1 684
Western Balkans	378	836	127	1 340
Turkey	-	894	255	1 149
Central Asia	67	640	133	840
Rest of Asia & Pacific	306	-	1 772	2 078
Latin America & Caribbean	253	-	1 558	1 811
EU/EFTA	81	2 512	162	2 755
Other & Multi-region	-	-	710	710
TOTAL	***3 371***	***7 016***	***7 969***	***18 356***

Source: Data provided by EBRD, EIB and EDFI

European development finance outside the EU in 2018, by aim and institutional type

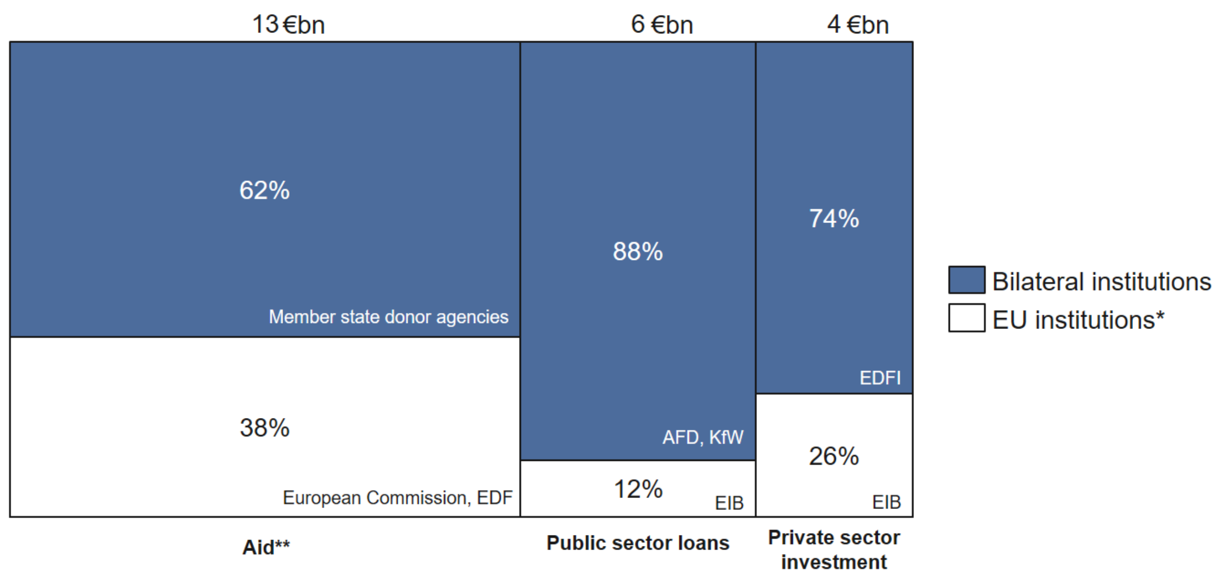


*:European Commission and EDF for aid; EIB for public sector loans and private sector investment.

**:Bilateral development cooperation assistance in the form of grants, budget support and in-kind donations. Also includes blended finance operations.

Source: OECD DAC statistics, European Commission, EIB, EBRD, EDFI and NDBs

European development finance to Sub-Saharan Africa in 2018, by aim and institutional type



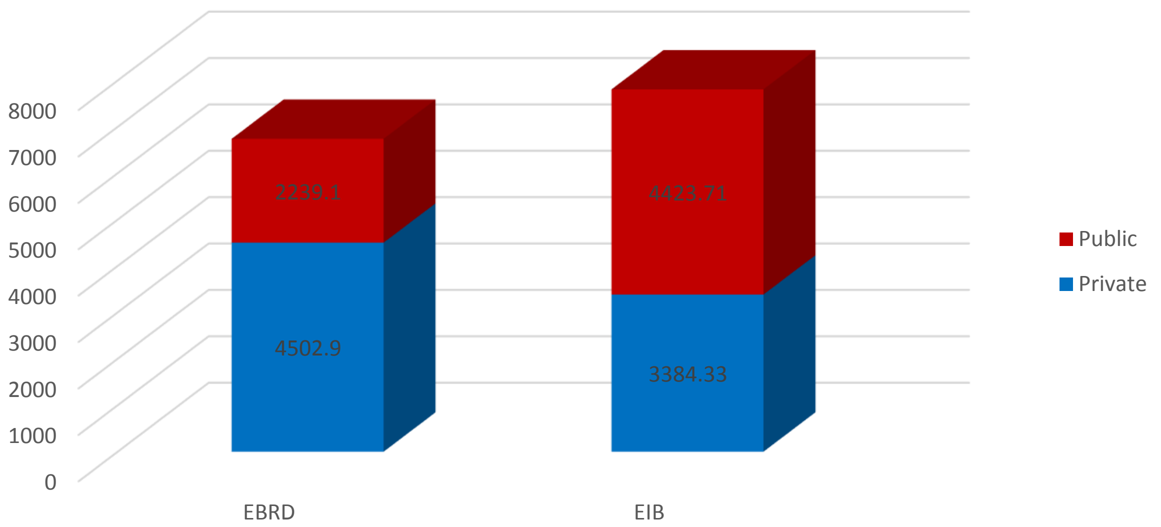
*: European Commission and EDF for aid; EIB for public sector loans and private sector investment.

**: Bilateral development cooperation assistance in the form of grants, budget support and in-kind donations. Also includes blended finance operations.

Source: OECD DAC statistics, European Commission, EIB, EBRD, EDFI and NDBs

Public and private allocation of EIB and EBRD financing in 2018 in comparable sample of countries

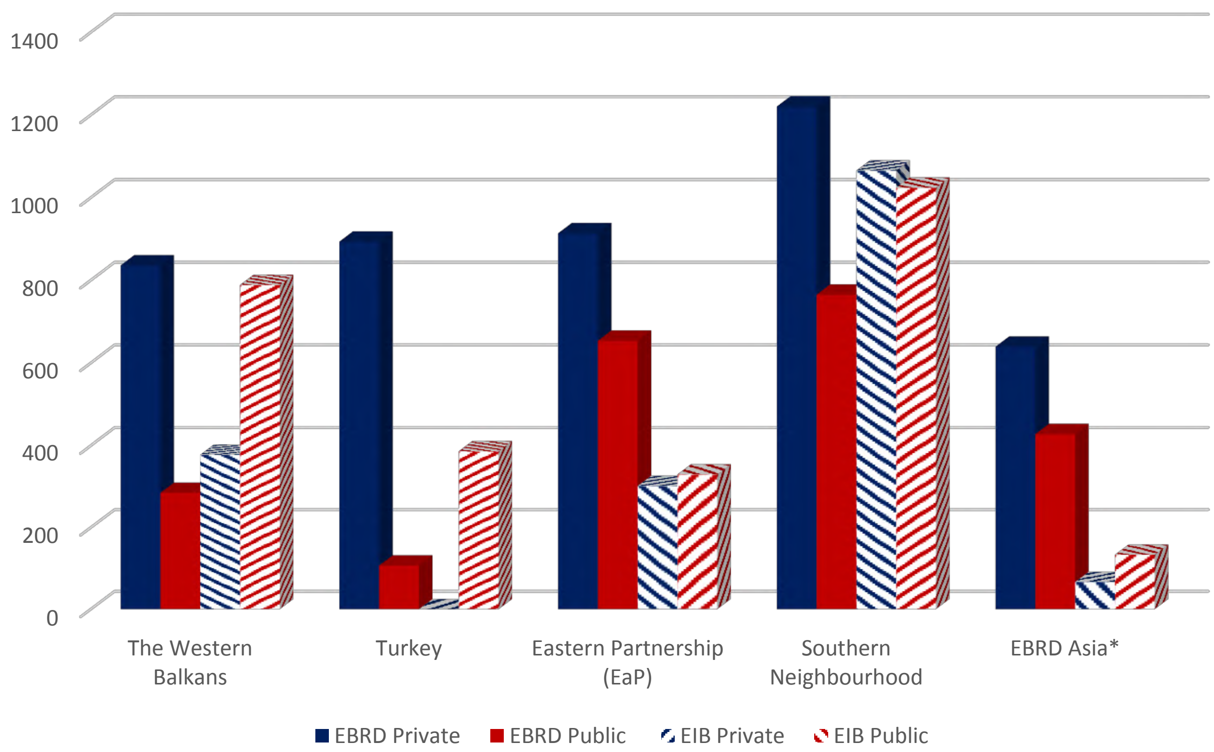
(i.e. countries where the EBRD has a mandate to operate)
(EUR mn)



Source: Data provided by EIB and EBRD

Regional and public/private allocation of EIB and EBRD financing in 2018 in comparable sample of countries

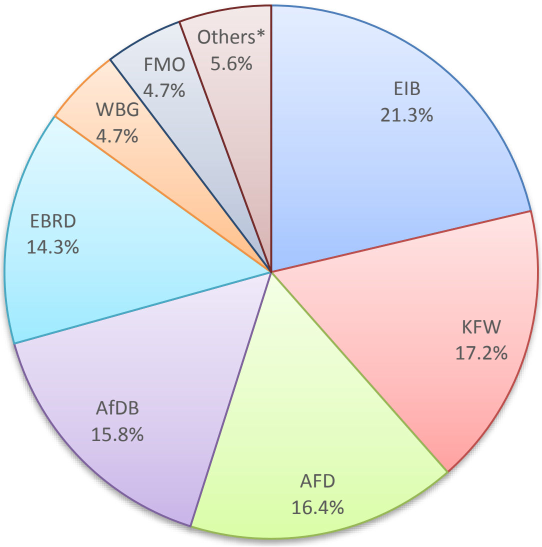
(i.e., countries where the EBRD has a mandate to operate)
(EUR mn)



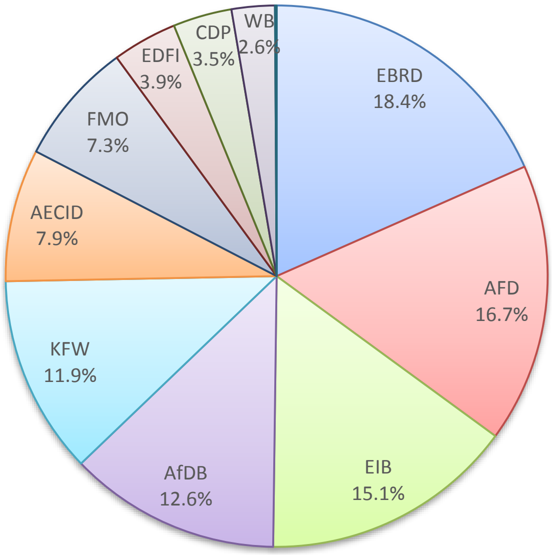
Source: Data provided by EIB and EBRD

Allocation of EU development grants and guarantees by IFI

Grants in 2016-2018, shares
(Total: EUR 4.33bn)

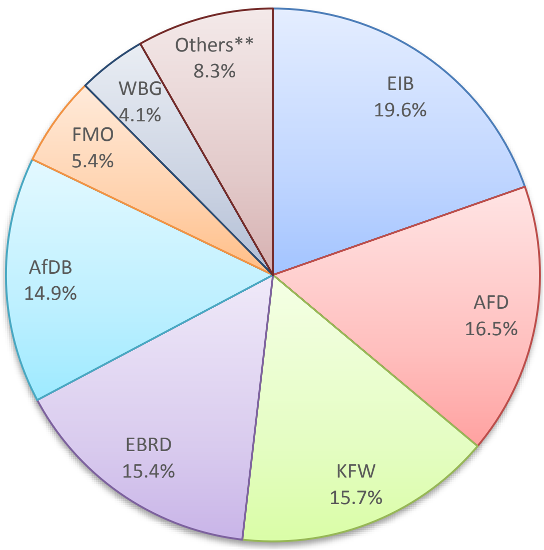


Guarantees, excluding ELM, in 2016-2018, shares
(Total: EUR 1.63bn)

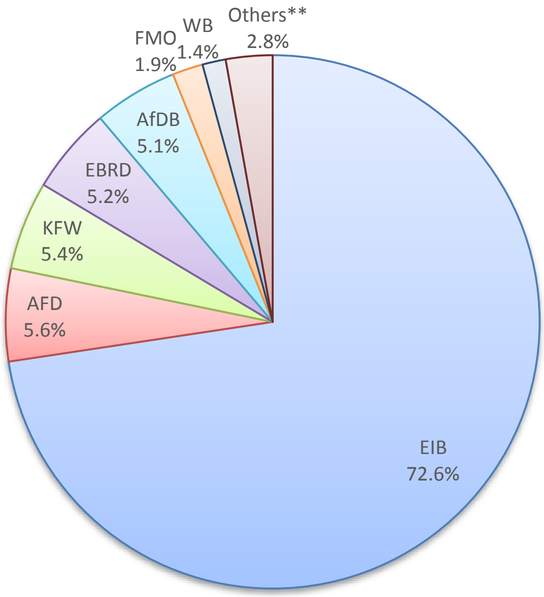


Note: Others includes IFAD, PROPARCO, AECID, IDB, DEG, COFIDES, CDB, ADB, NEFCO*

Grants and guarantees combined, excluding ELM, shares
(Total:EUR 5.96bn)



Grants and guarantees combined, including ELM, shares
(Total:EUR 17.5bn)

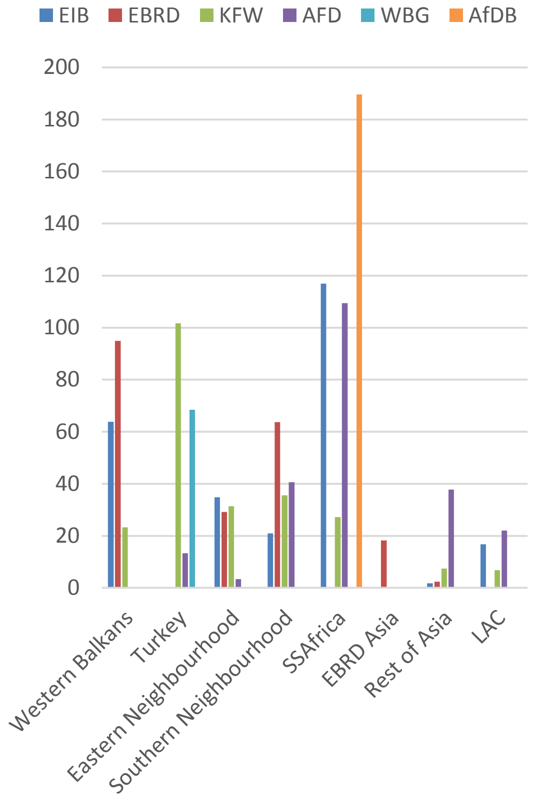


*Note: Others** includes AECID, CDB, EDFI, IFAD, PROPARCO, IDB, COFIDES, DEG, ADB, NEFCO;*

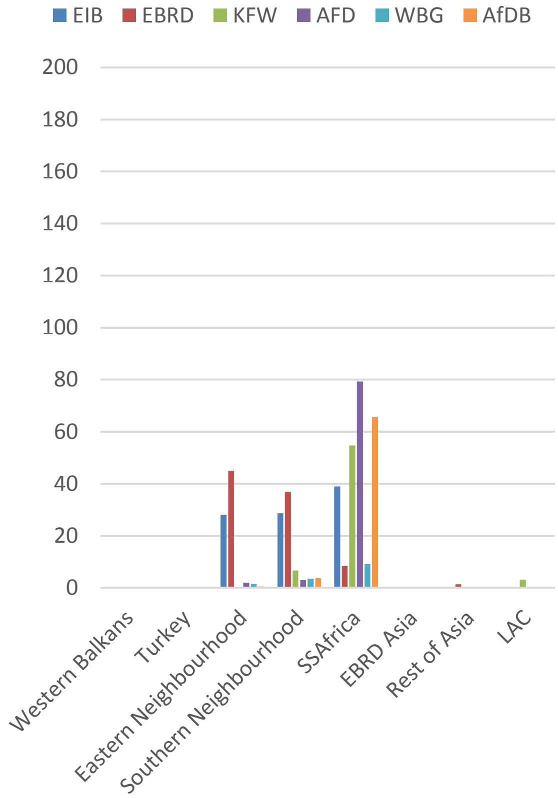
Source: Data provided by the European Commission

Allocation of development grants and guarantees from the EU budget, by IFI and region

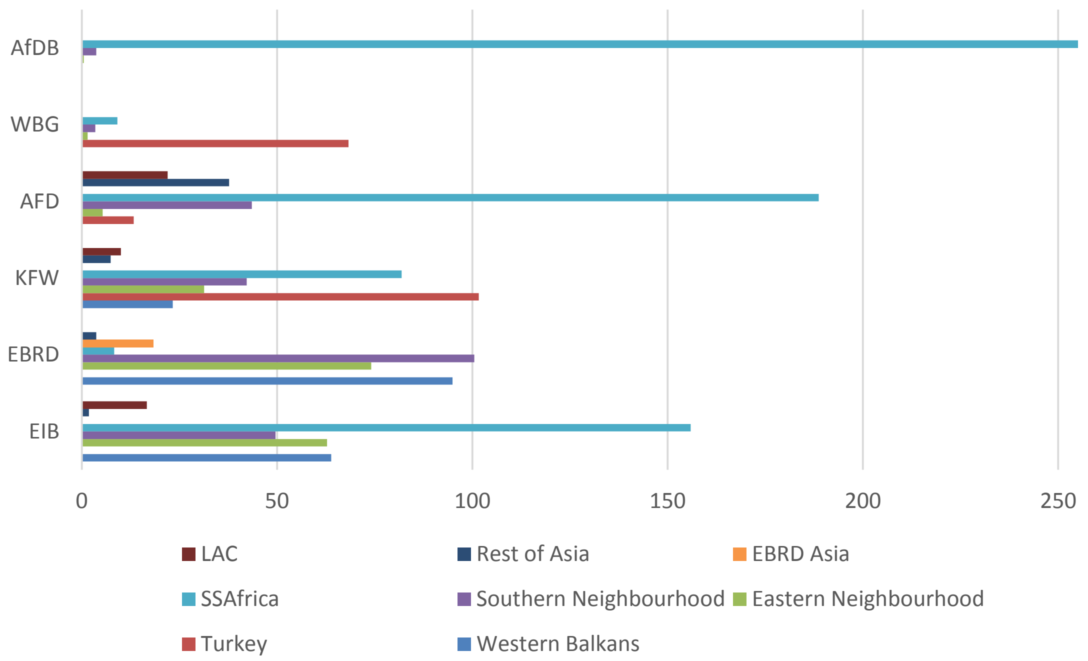
Grants, by IFI
(average 2016-2018), EUR mn



Guarantees, excluding ELM , by IFI
(average 2016-2018), EUR mn



Grants and Guarantees, excluding ELM , by region
(average 2016-2018), EUR mn



Source: Data provided by the European Commission

Annex 5. List of European Development Finance Institutions and National Development Banks

List of National Development Banks (NDBs) and National Development Agencies with Financial Instruments:

- Agencia Española de Cooperación Internacional para el Desarrollo, **AECID** (ES)
- Agence Française du Développement, **AFD** (FR)
- Cassa Depositi e Prestiti, **CDP** (IT)
- Kreditanstalt für Wiederaufbau, **KfW** (DE)

List of European Development Finance Institutions (DFIs in EDFI):

- Belgian Investment Company for Developing countries, **BIO** (BE)
- Belgian Corporation for International Investment, **BMI** (BE)
- Commonwealth Development Corporation, **CDC** (UK)
- Compañía Española de Financiación del Desarrollo, **Cofides** (ES)
- Deutsche Investitions- und Entwicklungsgesellschaft, **DEG** (DE)
- Finnish Fund for Industrial Cooperation, **Finnfund** (FI)
- Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, **FMO** (NL)
- Investeringsfonden for Udviklingslande, **IFU** (DK)
- Norwegian Investment Fund for Developing Countries, **Noorfund** (NO)
- Oesterreichische Entwicklungsbank, **OeEB** (AT)
- Société de Promotion et de Participation pour la Coopération Économique, **Proparco** (FR)
- Swiss Investment Fund for Emerging Markets, **Sifem** (CH)
- Società Italiana per le Imprese Miste all'Estero, **Simest** (IT)
- Sociedade para o Financiamento do Desenvolvimento, **Sofid** (PT)
- Swedfund International, **Swedfund** (SE)