New EFSD+ and the EIB’s External Lending Mandate

**Blended finance** and **guarantees** have attracted significant interest as tools to advance development goals by mobilising **additional financing for development** by using limited public funds to perform a de-risking function. Under **NDICI-Global Europe**, the EFSD+ provides an umbrella for blended finance and guarantee operations in EU external action. Among others, the **EFSD+** integrates and draws on **two previous guarantee and blending instruments**: the **ELM** and the **EFSD**. The study analyses these two instruments’ objectives, governance, accountability and implementation to identify the continuity and changing aspects in relation to its precursors, and **key issues for the EFSD+ implementation monitoring** and considerations on the **appropriateness of the current institutional set-up**, including suggestions for improvement.

**The ELM**

Between 1977 and 2021, the EIB has managed external action guarantees within the **ELM**, backed by an **EU budgetary guarantee** to back its lending in Pre-accession and Neighbourhood countries, countries in Asia and Latin America, and South Africa. The ELM’s last legal basis is **Decision 466/2014/EU**, amended in 2018 and repealed by the **NDICI Regulation**. The EU guarantee amounted to EUR 32.3 billion for 2014-2021 and, at the time of its completion, was committed to its full amount. Under it, the ELM was covered by a ‘**Comprehensive Guarantee**’ for financing operations of public authorities (state/substate administrations and state-owned entities) and a ‘**Political Risk Guarantee**’ for remaining operations, covering political risks (e.g., non-transfer of currency, expropriation, war or civil disturbance…).

The ELM’s **general objectives** were local private-sector development, in particular support to micro, small and medium-sized enterprises (**MSMEs**); development of **social and economic infrastructure**, including transport, energy, environmental infrastructure, information and communication technology; **climate change** mitigation and adaptation; and long-term economic resilience of refugees, migrants, origin, host and transit communities, to **address root causes of migration** (added in 2018).

The **ELM implementation assessment** was performed through **independent evaluations** in 2016 and 2018. Both evaluations concluded that the ELM and its objectives were **relevant** at global and EU level and its operations were **overall effective** in contributing to their achievement. The ELM was also effective in passing the financial advantages provided by the EU guarantee to beneficiaries and **complemented other EU external instruments**, such as the EFSD. The assessment transparency of certain projects’ **climate contribution** raised **concerns** and several **recommendations** were made on the **ReM extension and application** to better assess the ELM contribution on key EU policy aspects (regional integration, climate change, migration). Also, the ReM, common for EIB evaluation outside the EU, did not specifically identify the projects covered by the ELM and was mainly based on ex-ante evaluations which made it difficult to follow up on the ELM results.

**The EFSD**

Established in 2017, the **EFSD** was designed to provide guarantees and blended finance to facilitate investment in the European Neighbourhood and in Sub-Saharan countries. The EFSD was part of the EU development policy and has been implemented through several **DFIs**, including the EIB. The EFSD’s legal basis was the **Regulation (EU) 2017/1601**. The EFSD
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had a budget of EUR 5.1 billion for 2017-2021 - EUR 1.55 billion for guarantees and EUR 3.5 billion for blended finance, aiming to leverage EUR 50 billion.

The instrument sought to address objectives such as the specific socio-economic root causes of migration and to contribute to achieving the UN SDGs and established sectoral priorities: sustainable and inclusive growth; creating decent jobs; gender equality and empowerment of women and young people; and MSMEs, which translated into investment windows: sustainable energy and connectivity; financing of micro, small and medium-sized enterprises (MSMEs); sustainable agriculture, rural entrepreneurs and agroindustry; sustainable cities; and digitalisation for sustainable development.

EFSD implementation was scrutinised through an independent assessment in 2020. While it found that the EFSD was relevant, policy driven and offered financial additionality, it identified gaps in efficiency (impact measurement) and in coherence (3 EIP Pillars) and presented numerous recommendations for improvement. In its Opinion 7/2020, the ECA deemed the report as an assessment not an evaluation and concluded that it did not fulfil basic requirements of the EFSD regulation and that the EFSD was at too early a stage of implementation to be accurately assessed. The EFSD lacked a common ReM framework at programme and project level and its operational reports presented mainly expected or estimated results due to its early implementation stage which adds to the difficulty in assessing the instrument.

The EFSD+ and External Action Guarantee provide an investment framework under NDICI - Global Europe, totalling EUR 79.46 billion for 2021-2027. The EFSD+ consolidates the governance of blended finance and guarantees, evolving from the past regionally-focused approach. The new framework foresees a stronger policy steering role for EU institutions in relation to an expanding field of DFIs. The EFSD+ places added demands on the Commission regarding risk management and harmonised reporting framework. It will be important to review how the Commission and EEAS adapt management structures and practices to respond to the enlarged scope of blended finance and guarantee operations the EFSD+ envisions.

Key policy concepts for the EFSD+ and the NDICI-Global Europe are the ‘policy first’ principle, an open investment architecture, and Team Europe.

The study identified core issues in monitoring the EFSD+ implementation. These relate to reorienting priorities (fragile countries, LDCs, highly indebted poor countries); building the evidence base for blending and guarantees via consistent reporting and a common ReM framework; and addressing management needs (specialised financial and development expertise).

The NDICI-Global Europe instrument provides the European Parliament with an expanded oversight role, as EU development expenditures have come under the EP’s budgetary authority, strengthening the EP’s mandate to scrutinise blended finance and guarantees. The EP’s observer status on the EFSD+ strategic board offers an important avenue for participating in debates on investment priorities and on how EFSD+ implementation addresses its complementarity with other EU external action instruments. Effective monitoring and influence over EFSD+ implementation choices will depend on how the EP chooses to exercise its opportunities to contribute to debates in this forum.

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