The future European Financial Architecture for Development

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The Committee on Development adopted the own-initiative report by Charles GOERENS (Renew, LU) on the future European Financial Architecture for Development.

The EU institutions and the 27 EU Member States together constitute the largest donor for developing countries, responsible for approximately 46 % of the total official development assistance (ODA) provided by all OECD ODA members to developing countries.

According to the report, the **current political and financial leadership of and efforts by the EU are not sufficient** for achieving the Sustainable Development Goals (SDGs) and the goals of the Paris Agreement and addressing other acute global challenges, in particular worsening climate change, the dramatically increased debt burden of partner countries, the consequences of COVID-19 and violent conflicts, and therefore joint engagement at international level is required to ensure that EFAD is able to respond to these emerging challenges.

In order to actually achieve the SDGs and to overcome the COVID-19 pandemic, **policy coherence and close cooperation** between all official development finance institutions, their government shareholders, EU institutions and all existing partners is urgently needed to ensure that scarce public money is used in the most effective and efficient way.

Principles and objectives of the European financial architecture for development

Members underlined the key role of NDICI Global Europe, the EFSD+ and the External Action Guarantee (EAG) in providing a strategic framework for blended finance, de-risking investments and guarantees, and mobilising resources from the private sector with the support of the EU budget, especially in the light of increasing geopolitical and economic competition. They also insisted that all implementing partners who are part of EFAD and access EU budget funds under the EFSD+ apply the full range of EU social, human rights, procurement, transparency and environment and rule of law standards, policies and procedures.

The report underlined that consistency across all EU policies, strategies, initiatives and financing instruments, notably the new NDICI – Global Europe instrument, the Team Europe initiative and the new Global Gateway strategy, as well as close alignment with the EU's strategy for PCD and Policy Coherence for Sustainable Development (PCSD) is crucial in order to maximise the EU's global response for sustainable growth, development and peace.

Challenges to be addressed

Noting a lack of policy steer and coordination between the different financial actors (i.e. the EIB, the EBRD, the European Development Finance Institutions (DFIs) and others), Members called for further efforts for better coordination and cooperation to make the current system more effective, collaborative and focused on ensuring an optimal use of resources that leverages key partners' relevant geographical, sectoral and financial expertise to achieve a better return on EU taxpayers' money and a stronger development impact.

Member stated that the Team Europe approach should play a key role in further improving strategic cooperation and global coordination and the coherence and effectiveness of development efforts,

especially at partner-country level, as well as at EU and Member State level, including at regional government level. The Commission should put forward a powerful EU policy direction for development policies and to coordinate EFAD in a way that would allow further alignment of the EU development financial institutions' activities within the new open, collaborative, transparent and inclusive architecture in order to achieve EU development policy objectives, strengthen close partnerships with regions and contribute to their development.

Moreover, the Commission is called on to further develop the EU taxonomy and encourage development finance institutions both at EU and Member State level, as well as private actors active in development, to align their activities, in particular those in developing countries, with SDG objectives and the objectives of the Paris agreement.

European and national financial institutions

While reaffirming the EIB's specific role within the EU and globally and its crucial role in delivering EU investments, Members called for the EU to further maximise the potential of the EIB as a tool to leverage the EU's strategic autonomy and promote its external policy interests and priorities in its relations with non-EU countries.

The report welcomed the setting up of EIB Global, defined by the EIB as a dedicated development branch within the EIB Group, which has been operational since 1 January 2022. However, the lack of information on how EIB Global is funded jeopardises its mandate from the outset. A concrete and strong development mandate for the new EIB Global is needed.

The EIB and the EBRD are encouraged to further reinforce their complementarity and their business models through greater mutual reliance initiatives, as the needs are greater than their joint resources. Resources and financing should also be pooled from the Commission, the Member States, the EIB, the European Bank for Reconstruction and Development and the other European development banks and financial institutions.

Members underlined the need to finance **long-term investments** that foster sustainable development and to build on cooperation to date, in order to develop further sustainable development opportunities for the African continent.

The report recognised the importance and potential of Member State development banks within the EFAD structure. However, concern was expressed about the role of intermediaries partnering with DFIs, in particular regarding reported violations of human rights. The Commission and the EFAD institutions are called on to promote transparency in their procurement procedures.

Financing for development

Considering that the EU should strive to maintain its position as a world leader in ODA, the report insisted that the Member States honour their commitment to spend 0.7 % of their gross national income (GNI) on ODA. Members recognise the role of local micro, small and medium-sized enterprises, cooperatives, inclusive business models and research institutes as engines of growth, employment and local innovation, which will in turn contribute to the achievement of the SDGs. There is a need to simplify access to financing, strengthen inclusiveness and support smaller actors, including by improving accessibility to relevant publicly available data and for local SMEs to have easy access to financial services in the EFAD framework. EU policies need to encourage the cooperation of companies and enterprises, particularly SMEs, to play an active role in initiatives contributing to sustainable development in developing countries.

Lastly, the Commission is called on to promote **international cooperation in tax matters** to fight against tax evasion, illicit financial flows and corruption in order to foster purposeful and sustainable development financing that contributes to reducing inequalities and poverty.