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The External Investment Plan:

innovative instrument or dangerous blueprint for EU development policy?

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CONTENT OVERVIEW:

Glossary	3
Introduction: The genesis of the External Investment Plan	5
1/ What's new with the External Investment Plan?	7
2/ A flawed and artificial link to migration: an instrument to finance "Fortress Europe"?	12
3/ A questionable development focus: poverty eradication vs economic diplomacy and business?	18
Recommendations for the way forward	24

GLOSSARY

- EBRD: European Bank for Reconstruction and Development
 - EFSD: European Fund for Sustainable Development
 - EIB: European Investment Bank
 - EIP: External Investment Plan
 - IFIs: International Financial Institutions
 - MDBs: Multilateral Development Banks
 - EDF: European Development Fund
 - DCI: Development Cooperation Instrument
 - AfIF: African Investment Facility
 - NIF: Neighbourhood Investment Facility
 - AITF: Africa Infrastructure Trust Fund
 - EUTF: European Union Trust Fund for Africa
 - MICs: Middle Income Countries
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EXECUTIVE SUMMARY:

Announced by EU Commission's President Jean-Claude Juncker in 2016, the External Investment Plan (EIP) was launched in September 2017 and led to the creation of the European Fund for Sustainable Development (EFSD). The initiative is part of the Commission's long term strategy for the EU to address the issue of migration by tackling its „economic roots“.

Through a critical look at the strategy underpinning the creation of the EIP and at the financial mechanism planned for its implementation, this report builds a different perspective on this new initiative, shedding light on its problematic aspects and providing key recommendations to overcome them.

First of all, the EU narrative on the root causes of migration lies on quite dangerous premises. Indeed, according to the Commission's view migration is a problem and development – deviated from its genuine aid objective – is a way to „solve“ it. In this context, the EIP could be considered an essential tool in the EU migration and border control policy – the financial counterpart to more stringent migration control policies by partner countries.

Second, the EIP was conceived along the lines of a growing trend in the EU development agenda: channeling development aid through so-called „blending“ mechanisms that use EU funds as guarantees for loans. The aim of this mechanism is to trigger private investments through the leverage of scarce public resources. This approach, advertised as new and innovative, has actually been in place already for quite some time and evidence on its effectiveness and additionality is very scarce – as demonstrated by a recent evaluation of the already existing EU blending facilities commissioned by the EC itself.

Furthermore, the development goal attached to the EIP is based on the alleged need to support the private sector to deliver growth and jobs in Africa and the European neighbourhood regions. „Down-to-earth investment“ as European Investment Banks's President Hoyer defined it, is portrayed as a silver bullet to what sounds more like an economic diplomacy & business plan than a development and poverty eradication one. Avoiding tied aid and subsidising the private sector to agglomerate cheap labour with low social protection will be a crucial challenge for the EIP if it is to reach its stated development goals.

The report then distils key recommendations for the EFSD

Strategic and Operational Boards to make the EIP a real pro-poor and sustainable instrument:

- **De-linking the EFSD from migration control policies**
 - Diverting resources towards border control instead of development aid budgets in an „aid securitization“ move risks becoming a mechanism to finance „fortress Europe“. Thus, EFSD operations should not be made conditional to partner countries implementing other measures or initiatives under the EU Migration Policy and investments need to be targeted to areas and sectors where they are most needed and can achieve a positive impact.
- **Towards a stringent approach on the respect of safeguards and climate change** – The EFSD Strategic Board should make it clear that contribution to poverty eradication, promotion of Human Rights, rule of law and democracy will be at the core of EFSD operations. The Commission needs to take direct responsibility to monitor this and not leave it only to the discretion of development banks.

In parallel, all projects supported by the EFSD need to be climate-proof and in line with the Paris agreement objectives. Thus no-go sectors like fossil fuels or land-grabbing should be established and small-scale projects with high development impact should be privileged over large infrastructure ones.

- **Raising the bar on transparency and accountability** – As the new Commission's flagship development instrument, the External Investment Plan needs to score high on transparency, by making information on the project selection process easily accessible, as well as performing ex-ante and ex-post assessment of the impacts of projects. At governing bodies level, it will be key that the minutes of the Strategic Board and Operation Board's meetings are made public. This will help understand the overall orientations of the EFSD and the project selection – why specific projects are benefiting from guarantees stemming from the EU budget.

A high level of accountability for final beneficiaries and local communities impacted by the projects needs to be kept, for example through guaranteeing access to grievance mechanisms. In parallel, it will be important to make sure that all stakeholders are involved through all stages of the process and that the EFSD governing bodies receive regular oversight by the European Parliament.

INTRODUCTION:

The genesis of the External Investment Plan

On 14 September 2016, in his flagship State of the Union speech in Strasbourg, the president of the European Commission Jean-Claude Juncker announced that the European Union would launch in 2017 an External Investment Plan (EIP). On the same day, the European Commission tabled its legislative proposal¹ for a specific fund to be created, the European Fund for Sustainable Development (EFSD). Almost a year later, on 28th September 2017, the EIP was officially launched².

But what is this new plan about? Before analysing the EIP set up, together with the risks and opportunities linked to it, it is worth putting it into context:

Firstly, the EIP is proposed as a response to the so-called “migration crisis” affecting Europe.

This initiative was mentioned for the first time in the June 2016 Communication of the Commission “on establishing a new Partnership Framework with third countries under the European

Agenda for Migration”³. As part of this document, the Commission called for a long term strategy for the EU to address the root causes of migration. This reference to the “root causes of migration” has then been made a central goal of the EIP. Hence, on 28 June 2016 the European Council asked the Commission to present a proposal for an ambitious External Investment Plan as a political and financial response to the long term challenges of the migration crisis. In EU Commissioner for International Development and Cooperation Neven Mimica’s own words, “the External Investment Plan pursues a mid- to long-term perspective. Its primary objective is the reduction and, in the long term, the eradication of poverty and addressing the economic root causes of irregular migration”⁴.

Secondly, the EIP was conceived along the lines of a growing trend in the EU development agenda: channeling development aid through so-called “blending” mechanisms.

While later in the text we will reflect further on what „blending“ entails and why it has become a buzzword within development

circles⁵, it is worth noting that the EIP financing model is portrayed by the Commission as a blueprint for the next EU budget for the period 2020-2027. The new approach consists in mobilising European funds, which were spent in the past as direct grants to projects, as guarantees for loans and operations of international financial institutions (IFIs), thus leveraging the scarce public resources to mobilise private finance and trigger private sector operations in a context of budgetary constraints. Such strategy already inspired the Investment Plan for Europe, also known as the Juncker Plan, created as an instrument to mobilise the EU budget under guarantees for high-risk operations of the European Investment Bank (EIB) in order to steer growth and jobs across Europe.

Lastly, the rhetoric about the EIP is also based on the alleged need to support the private sector to deliver growth and jobs in Africa and the neighbourhood region.

Through its emphasis on private sector involvement, the EIP aims to promote the objectives described in the Commission's Communication "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries"⁶. In an interview with POLITICO at the World Economic Forum in Davos, the EIB President Hoyer made it clear that "What is needed is not global social policy but down-to-earth investment. [Africa] has fantastic potential, but we need to mobilize the private sector. The idea of doing everything with grants is over"⁷.

In a joint article, Federica Mogherini (High Representative for Foreign Affairs and Security Policy and Vice-President of the European Commission), Kristalina Georgieva (former Vice-President of the Commission and now Chief Executive Officer for the World Bank) and Jyrki Katainen (Vice-President of the Commission) re-iterated that strategic objective: "As we step up our financial commitment to sustainable development we need the private sector to get on board. We already agreed to do this when we helped broker the Addis Ababa Action Agenda and the Sustainable Development Goals [...]. A new chapter in European development policy has just begun, as part of a wider drive to make best use of EU funds, at home and abroad⁸".

Furthermore, the EIP is not an isolated initiative since it is connected to other recent initiatives targeting the private sector, such as the extension of the External Lending Mandate of the EIB outside of Europe⁹, the German-led Marshall Plan for Africa¹⁰ or the G20 Compact for Africa¹¹.

In this context, this report will first analyse the main features of the EIP and why there are question marks about its innovative nature. Then, it will dig into the worrying link created between this initiative and the EU migration agenda. The questionable development-orientation of the EIP will then be discussed. Finally, this paper will present key recommendations to improve the EIP's effectiveness as a real pro-poor and sustainable instrument.

1

What's new with the External Investment Plan (EIP)?

What is the External Investment Plan

The EIP, as set up by the regulation (EU) 2017/1601¹², is composed of 3 pillars:

1/ The European Fund for Sustainable Development (EFSD) which will support investments of financial institutions thanks to guarantees coming from the EU budget.

The Guarantee Fund underlying the EFSD will be provisioned by EUR 3.35 bn including EUR 2.6 bn from already existing blending facilities, EUR 350 million from the EU budget and EUR 400 million from the European Development Fund (EDF). Its ambition is to mobilise EUR 44 bn of investments for the period 2017–2020 in its regions of operations. The European Commission also calculated that, if EU Member States chip into the Guarantee Fund, the total investments may go up to EUR 88 bn. However at this stage, no Member State has showed interest in doing so while the EFSD has not started its operations.

Until 2020, the EFSD is to support investments in 2 regions via specific investment platforms: the Africa Investment Platform and the EU Neighbourhood Investment Platform. However, since the inception of the investment plan, the Commission explicitly recognizes that other regions such as Asia and Latin America may be incorporated under other Investment Platforms at a later stage.

2/ A technical assistance pillar seeking to help local authorities and companies develop a higher number of sustainable projects and attract investors, in order to further engage the private sector.

3/ A third pillar will focus on the “improvement of the investment climate and overall policy environment in partner countries”. It will target cooperation and political

dialogue with recipient countries, with the ultimate goal of improving the investment climate, structural reforms and overall policy environment in the involved countries. Among the examples mentioned by the European Commission are policy and political dialogue with partner countries (including around migration), economic diplomacy, structured dialogue with the private sector, etc. It still remains unclear what this pillar will concretely entail in addition to the dialogue and programmes that the European Commission and the European External Action Service (EEAS) already run in those countries.

It is worth highlighting that during negotiations to set up the External Investment Plan, decision-makers and various stakeholders focused their attention mainly on the EFSD, while little discussion took place about the second and third pillars of the EIP.

European External Investment Plan (EIP)



The EIP has been portrayed as “an innovative approach to boost investments in Africa and EU Neighbourhood countries¹³”. But is it actually such an innovative framework? This section will look into the concrete set-up of the plan and assess whether it is likely to be a game changer. Hence we will try to debunk some of the myths around it.

This is “fresh money” to support new investments in Africa and EU neighbourhood

Regarding the EFSD, it is partly misleading to speak about “fresh money”¹⁴. The funds feeding the EUR 3.1 bn Guarantee Fund to be established to support the EFSD mainly come from already existing European budget lines, as mentioned above: EUR 0.94 billion from the Neighbourhood Investment Facility, EUR 0.16 billion from the Development Cooperation Instrument (DCI), and EUR 2 bn from the European Development Fund (EDF) of which €1.6 billion will come from the AfIF and an additional €0.4 billion from EDF envelopes.

The main change compared to how these budget lines have been used in the past is that, instead of being used as grants to directly finance development cooperation projects outside of Europe, this money will be used to provide guarantees to a set of development banks and/or directly to private investors (see more explanation below).

“Fresh money” could potentially just come into play in case EU Member States decide to chip in to the guarantee fund. But at this stage there is no indication that this will happen in the near future. Moreover, the experience from the Investment Plan for Europe shows that Member States are currently reluctant to provide extra money: in the case of EFSI – the EU-focused

equivalent of the EFSD – none of the Member States contributed to the guarantee funds, despite the initial objective of the European Commission to multiply the leverage effect of this investment initiative via this additional contribution.

In practice, the EIP is mainly a re-packaging of **already existing financial instruments**. The EFSD will integrate under its regional investment windows two investment tools currently managed by the European Commission under so-called “blending facilities”: the Neighbourhood Investment Facility (NIF) – which provided EUR 1.072 billion to 95 projects between 2008 and 2014 therefore mobilizing a total funding volume of more than EUR 25 billion¹⁵ – and the African Investment Facility, which recently replaced the Africa Infrastructure Trust Fund (AITF) – which has paid out more than 90 grants to infrastructure projects since 2007. And the budget lines used to feed the EFSD Guarantee Fund are mainly those which were previously used as a basis for the functioning of those blending facilities. Thus in this case as well, it is more accurate to speak about a re-packaging of funds than of a new pot of development money.

Switching to guarantees for high-risk projects is truly innovative

What can be considered a real innovation under the External Investment Plan is the re-direction of budget lines to be used as guarantees for high-risk projects supported by loans from development banks. It is worth pointing out that a similar rationale also underpinned the creation of the Investment Plan for Europe: providing guarantees to the allegedly too risk-averse European Investment Bank (EIB) so that it can support higher-risk projects that could stimulate growth and jobs throughout Europe.

In the case of the EFSD, the European Commission openly refers to the need for development banks to do more than business as usual, and also steer private investments in countries and sectors where the private sector is currently not investing or under-investing. The EFSD Guarantee will provide a single portal to access risk mitigation and risk-sharing instruments, such as risk capital, first-loss guarantees and small and medium-sized enterprises (SME) loan guarantees¹⁶.

However, the innovative nature of a switch of the EU budget towards guarantees is also debatable. Indeed, guarantees were already provided under the above-mentioned blending facilities at the core of the EFSD. Both blending facilities at the core of the EFSD (IATF and NIF) have supplied guarantees to financial instruments in recent years, as part of their toolkit of blending activities. But in the past only a limited proportion of the grants under these facilities has been eventually channeled via guarantees.

Providing EU guarantees for development banks via a stand-alone guarantee fund is far from being a new feature of the EU development architecture. Here, we are mainly referring to EU guarantees awarded to the European Investment Bank under its External Lending Mandate, as it has already been the case for years. For the 2014–2020 period, a total of EUR 27 bn has been awarded for EIB operations outside of Europe, including in the neighbourhood region where the External Investment Plan will be active. According to the critical analysis presented by Counter Balance and CEE Bankwatch Network in their recent report “Going Abroad”¹⁷ in 2016, the EIB operations under this guarantee scheme have had an uncertain development impact so far. Despite clear guidelines and the existence of this guarantee, EIB operations have shown a poor consideration of the human rights and environmental impact of the projects financed and key objectives such as poverty eradication have been overshadowed by a prominent focus on the projects’ financial return. In addition, it is important to underline that, despite the guarantees at its disposal, the EIB mainly invests in low or middle-income countries rather than the Least Developed Countries (LDCs).

In this context, some lessons should also be learnt from the Investment Plan for Europe and its cornerstone – the EFSI – which shares many similar features with the EDSD: the evaluation of EFSI carried out by the EIB¹⁸ demonstrates that the pressure to reach the target of EUR 315bn of total investment pushed the EIB to focus on operations in markets that are more adept at using financial instruments and structuring high-risk projects. Both the additionality and geographical concentration of EFSI investments have been largely criticised since its launch. Building on that experience, sufficient incentives need to be put in place for the EIP to

actually invest in less or even the least developed financial markets, thus leaving no African countries behind¹⁹.

With that experience in mind, it is quite hypothetical to think of guarantees as a silver bullet to direct financial institutions towards investments in high-risk sectors and vulnerable countries. That is, guarantees alone will surely not be enough to achieve that goal. De-risking operations of the private sector and investments also comes together with risks for the public. When a project goes wrong, it is ultimately the public (here the European Commission) which will pay out companies or banks (and not the people or government of the place where the project is implemented) for the failure of their projects.

Current developments taking place at international level in the framework of the OECD Development Assistance Committee (DAC) are likely to mean that money sitting (and even sleeping if not being used) in the EFSD guarantee fund could be reported as Official Development Assistance (ODA) even when not activated to compensate for failed projects. The proposed changes at the DAC will mean a step-change in how guarantees are reported. In a March 2017 position paper, NGOs warned that those changes risk inflating ODA and should be revised to count only a portion of the called guarantees²⁰.

It will focus on the private sector and support high-risk projects

Among the stated goals of the EIP is to push International Financial Institutions to do more than what they are currently doing. This would mean concretely focusing investments via the private sector and towards high-risk projects and sectors.



Sufficient incentives need to be put in place for the EIP to actually invest in less or even the least developed financial markets, thus leaving no African countries behind.



The real innovation of this approach seems to lie in the possibility that the EFSD guarantee may be passed on not only to development banks to underpin and de-risk their investments, but also directly to private sector entities like companies or commercial banks. In order to do so, a derogation to the framework guiding the use of the EU budget



Despite its announcement with a big fanfare, our analysis shows that the innovative nature of the External Investment Plan is quite limited.



– the so-called “Financial Regulation” – is needed. This is perhaps one of the most striking changes proposed in the External Investment Plan: traditionally the European Union allowed only some “trusted” public entities (like the European Investment Bank) to manage financial instruments based on European budget lines on its behalf, now the private sector would be able to directly benefit from European guarantees. To a certain extent, this can be seen as the concretization of a new vision of the EU development finance, where the private sector would play a central role.

Yet, this new orientation raises some legitimate concerns. First of all, it remains particularly unclear what the “high-risk” sectors to be targeted are. The list of eligible sectors of operations for the EFSD is open to almost all sectors of the economy of recipient countries – where development banks are already investing as part of their usual activities or under already existing blending facilities. This lack of focus of the EFSD bears the risk that the development banks benefiting from the EU guarantee will mainly carry out business as usual, since the sectors where they already invest would be eligible under the EFSD. Nonetheless, it is positive that, in its first meeting in Brussels on 28 September 2017, the Strategic Board of the EFSD started to bring down priorities to five key areas: “Sustainable Energy and Sustainable Connectivity”, „Micro, Small and Medium Enterprises (MSMEs) Financing“, „Sustainable agriculture, rural entrepreneurs and agroindustry“, „Sustainable cities“ and „Digitalisation for Sustainable Development“.

Secondly, the focus on the private sector is not such a new element for EU development finance. Via numerous policy papers, the European Commission has already made it clear that the private sector in development is a priority. Through the activities of blending facilities, a significant proportion of projects supported is already linked to the private sector. Actually, there is quite a thin and blurry line between what is considered as a public or a private project in development

finance, given the growing imbrication of the public and private spheres, especially when it comes to infrastructure projects. In this regard, the additionality of EFSD could lie in its ability to reach out to more domestic and local private sector.

It will rationalize the EU blending architecture by providing a one-stop-shop for investors

When taking a broader look at the European Union development finance architecture, the setting-up of the EIP can also be considered as an attempt to streamline and bring together a set of already existing financial instruments. By integrating two blending facilities under the same structure, and potentially in the future other facilities via additional regional investment windows, the EFSD is an effort to rationalize the currently fragmented landscape of financial instruments. In the European Commission’s own words, the EIP “will enable the EU, international financial institutions, donors, public authorities and the private sector to cooperate fully in a coordinated way²¹”.

While a more coordinated approach is certainly a welcome move, it is important to note that a few challenges remain in this regard. Indeed, many financial instruments are still left out, starting from the other 5 blending facilities managed by the European Commission²². In addition, the guarantees provided to the EIB under its external lending mandate as well as the ACP Investment Facility also managed by the EIB will still be stand-alone instruments, whose specific priorities and objectives may duplicate those of the EIP. It will be a real challenge for the EFSD strategic board to ensure a clear division of tasks, coherence and complementarity between all these instruments co-existing in a fragmented landscape.

Despite its announcement with a big fanfare, our analysis shows that the innovative nature of the External Investment Plan is quite limited. Of course, this refers mostly to the structure and set-up of the main pillar of the EIP: the European Fund for Sustainable Development. There are many pending questions which may influence some of the questions raised above, including: how will the Advisory Hub and the 3rd pillar provide added value for the EFSD operations? Will the first projects approved under the EFSD show a genuine additionality and difference compared to projects already financed by development banks?

We will now elaborate in the next chapter on what is certainly the most controversial element of the External Investment Plan: its focus on tackling the “root causes of migration”.

2 A flawed and artificial link to migration: an instrument to finance “Fortress Europe”?

Since its inception, the creators of the External Investment Plan have been portraying this financial instrument as part of the European Union’s strategic response to the so-called “migration crisis” supposedly hitting Europe.

This initiative was mentioned for the first time in the June 2016 Communication of the Commission “*on establishing a new Partnership Framework with third countries under the European Agenda for Migration*”²³. As part of this document, the Commission called for a long term strategy for the EU to address the **root causes of migration**. This reference to the “root causes of migration” has then been made a central goal of the EIP. Hence, on 28 June 2016 the European Council asked the Commission to present a proposal for an ambitious External Investment Plan as a political and financial response to the long term challenges of the migration crisis. In EU Commissioner for International Development and Cooperation

Neven Mimica’s own words, “*the External Investment Plan pursues a mid- to long-term perspective. Its primary objective is the reduction and, in the long term, the eradication of poverty and addressing the economic root causes of irregular migration*”²⁴.

The same reading is prominent at the level of EU member states, as expressed by Peter Javorčík, Permanent Representative of Slovakia to the EU, commenting on a formal position taken by the European Council: “*The EFSD aims in particular at tackling the root causes of irregular migration by creating*

job opportunities, encouraging investments and facilitating sustainable development in partner countries. It is a vital instrument.”²⁵

Looking at the genesis of the External Investment Plan, it is clear that the European institutions have invested high political capital in portraying it as a long-term response to the migration crisis. According to San Bilal from the think tank ECDPM, “*Addressing the root causes of migration seems to have become the catchphrase of almost any development policy since the launch of the EU Emergency Trust Fund for Africa at the Valletta Summit.*”²⁶ Indeed the Valetta Summit on migration in November 2015, which brought together European and African Heads of State and Government, was a turning point to try and strengthen cooperation and address the current challenges but also the opportunities of migration²⁷. During this summit, the European Union launched the EU Trust Fund for Africa²⁸ with the aim of supporting all aspects of stability [sic] and to contribute to better migration management as well as addressing the root causes of destabilisation, forced displacement and irregular migration²⁹. Concretely, the Trust Fund is to provide flexible answers to migration-related challenges and urgent situations.

In contrast to the short term financing to be provided under the Trust Fund, the External Investment Plan is portrayed as a mid-to long-term solution to migration challenges. Politically – and more cynically, it can also be interpreted as a “*bid to sweeten the pill on tackling migration to their African counterparts at a time when European governments are seeking to increase their*

deportation rates”³⁰. The idea there is to put in place economic incentives to convince African governments to better control their borders. Hence, the EIP can be considered an essential tool in EU migration and border control policy – the financial counterpart to more stringent migration control policies by partner countries.

A flawed link to migration issues

The EFSD regulation considers eligible projects that “contribute, by promoting sustainable development, to addressing specific root causes of migration, including irregular migration, as well as foster resilience of transit and host communities, and contribute to the sustainable reintegration of migrants returning to their

This denies the fact that among the key reasons pushing people to move are the actions of dictatorships and authoritarian regimes, conflicts and persecutions in their home countries. In the words of Oxfam’s head of EU Office, “the situation is different for forced displacement – where people are fleeing their homes, seeking refuge either in their own country or across borders. Indeed, these situations need a holistic approach that addresses the causes of the crises and chronic problems that lead to them. The European Union must not look at conflict through the narrow lens of how to stop people fleeing their homes. This cannot be solved through private investment alone”³¹.

Development as a “solution” to the “problem” of migration is a fatally flawed approach. Migration can importantly contribute



The EIP can be considered an essential tool in EU migration and border control policy – the financial counterpart to more stringent migration control policies by partner countries.



countries of origin, with due regard to the strengthening of the rule of law, good governance and human rights”. It is important to mention that the European Parliament managed to include references to human rights and to soften the text, while the Council was rather pushing for more aggressive wording. But despite these efforts, Article 3 of the regulation, stating the purpose of the EFSD, still mentions that the EFSD needs to operate in the context of the New Partnership Framework with Third Countries under the European Agenda on Migration.

The migration policy of the European Union has been under fire especially for promoting the criminalisation of migration and externalisation of border control to neighbouring countries with poor human rights records, as in the case of the EU-Turkey readmission agreement of 2014. In this context, NGOs working together on monitoring the setting up of the External Investment Plan expressed their concerns about this investment initiative being directly linked to the EU migration control policy and the underlying objectives and rationale of the EFSD. Below are the main disputed elements:

The Commission’s proposal suggested that development will eradicate the causes of migration, therefore portraying those arriving to the shores of Europe as mainly “economic migrants”.

to development, as acknowledged in the 2030 Agenda for Sustainable Development, but it must be accompanied by adequate policies. Evidence³² – including from the U.N. Migrants’ Rights representative François Crépeau³³ suggests that increasing human development in less developed countries is generally associated in the short term with higher, rather than lower, levels of mobility – including both emigration and immigration. Migration contributes to innovation, economic growth and personal development and should not be stifled. Therefore, the EIP should acknowledge the positive correlation



Development as a “solution” to the “problem” of migration is a fatally flawed approach.



between migration and development and, together with other relevant EU policies, it should contribute to prevent and solve conflicts, tackle inequalities, improve governance, support citizens to hold their governments accountable, build an enabling environment for civil society, enhance rule of law, and

tackle corruption. Only then it can create local opportunities for safe and decent work and livelihoods, so that people and their families can choose whether to migrate or not³⁴.

Another key risk identified is that the investments carried out under the EFSD would be made conditional to the other EU instruments for migration control, especially under the bilateral “migration compacts” that the EU is negotiating with African countries³⁵. The integration of such conditionalities would run counter to policy coherence for development³⁶ and create a dangerous precedent for EU development finance. The European network of development NGOs – CONCORD – makes it clear: *“through EU policies and politics migrants and migration are perceived as a security threat, to be restricted, controlled, reduced and “managed.” As a result, enormous resources are being diverted toward border control instead of development aid budgets.” Or as expressed by Benjamin Fox, a consultant with Sovereign Strategy – a London-based PR firm, “linking the investment fund to migration tools is a risky political move”³⁷.*

A further element of concern is that the EIP represents another step in the direction of the securitisation of aid – a concept widely criticised by European NGOs, especially in the context of proposals to account security and defence spending as Official Development Aid (ODA)³⁸. The major risk is that the EIP – which should be an innovative tool among the EU development assistance instruments – becomes a mechanism to finance “fortress Europe”.

In parallel to “securitising aid”, the focus on migration deprioritizes the needs of the recipient country in favour of the domestic objectives of the donor³⁹. A recent report by Eurodad demonstrates that this is a growing trend in the latest figures of ODA⁴⁰, and civil society reacted strongly to these developments⁴¹. Such criticism was also echoed by the European Parliament in a resolution of 7 June 2016⁴² which stressed that development aid should not be used for migration control purposes, and called on the EU and the Member States to refrain from reporting refugee costs as ODA at the expense of the development programmes which tackle the root causes of migration⁴³.

It is important to stress that the EFSD regulation – given its broad list of eligible sectors for operations – leaves sufficient room for maneuver for financial institutions and Member States to direct investments towards a wide range of sectors, including migration control and security sectors. Hence, migrant’s camps, jails or the building of walls and infrastructure to prevent migrants and refugees fleeing towards Europe could potentially

be financed under the EIP. At this stage there is no certainty that such projects would be approved under the EFSD – and that such projects would generate a cashflow sufficient to reimburse the awarded loans, but a risk remains in this regard.

Only a labelling exercise?

It is essential to clarify what is meant by the increasingly pervasive expression “root causes of migration”, also referred to in the External Investment Plan. To date, no clear definition has been provided by the European institutions. Only the recital of the EFSD regulation mentions *“migratory pressures stemming from poverty, conflict, instability, underdevelopment, inequality, human rights violations, demographic growth, lack of employment and economic opportunities as well as from climate change”*. But what does this lack of clarity imply?

In our view, in addition to risking supporting human rights violations, linking the EIP to migration issues is to a large



Subsidising the private sector to agglomerate cheap labour with low social protection remains a key risk that the EIP needs to address if it is to reach its stated goals.



extent artificial exercise. Indeed, if sustainable economic development is the solution to tackling the root causes of migration, then development banks – now involved as the main implementers of the EIP – are supposed to have contributed to that objective ever since they started operating in the European neighbourhood regions and Africa. Financial institutions like the EIB, EBRD, the French Development Agency (AFD) and the Kreditanstalt für Wiederaufbau (KfW, Germany’s development bank) – the 4 main recipients of EU blended finance – all aim at the sustainable development of the regions in which they invest and have already been active for decades in the sectors and regions targeted by the EIP. For example, if providing finance to small and medium-sized enterprises (SMEs) in regions targeted by the plan counts as tackling the root causes of migration, as

Examples of controversial European funds spent on migration issues

The recent initiatives of the European Union to tackle the migration challenge have been widely criticized:

claimed by the European Commission, then billions of Euros have already been spent in that field over the last years, for instance by the EIB under its External Lending Mandate. What those development banks will do differently under the EIP remains unclear at this stage.

The conclusion we draw is that the EIP's role in tackling the "root causes of migration" is largely a labelling exercise: portraying already existing development activities as solving the "migration crisis" for the sake of the short term political visibility of the European Union. As pointed out in an opinion piece published in EUObserver in September 2016: *"An investment fund based on €3 billion isn't going to suddenly turn around the boats making the treacherous journey from North Africa across the Mediterranean. Improving the long-term economic prospects across sub-Saharan Africa will take years, and much more investment. At best, it is another incentive for African leaders to give higher priority to border management"*⁴⁹.

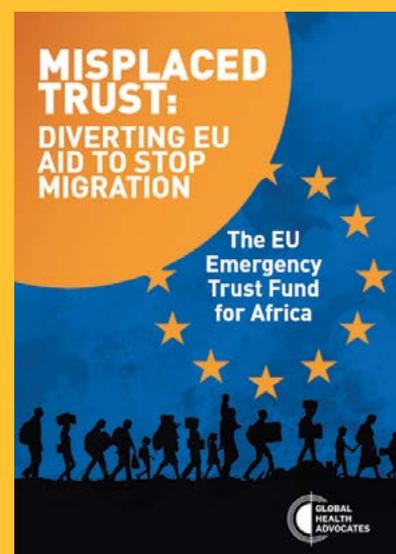
The U.N. Migrants' Rights representative François Crépeau⁶⁰ confirmed this view: *"if politicians believe that by pouring 500 billion euros into Africa will stop migration over the next five years, they are mistaken"*.

On 7 June 2016, the European Commission adopted a Communication on establishing a new partnership framework with third countries under the European agenda on migration, proposing new 'migration compacts' with key third countries from which migrants originate and transit. Tailored agreements have initially been concluded with Jordan and Lebanon, to be followed by compacts with 'priority' countries (Ethiopia, Mali, Niger, Nigeria, Senegal, Tunisia and Libya), combining elements from different EU instruments and policies to provide strong incentives for partner country cooperation on migration management. Introducing an element of conditionality linked to countries' cooperation on readmission and return, the compacts have the longer term objective to address the root causes of migration and to influence the legislative environment in African partner countries⁴⁴.

The EU migration compacts and the **EU Trust Fund for Africa (EUTF)** as established at the Valetta summit were met with sharp criticism. A key concern raised by NGOs regards the general lack of consideration for human rights in such initiatives, together with a tendency towards the politicization of aid⁴⁵, with countries in breach of fundamental rights being the main recipients of the funds.

According to the Italian organisation ARCI, *"this monetisation of the relationship with African countries opens up a trade logic that appears*

*to skate over questions of human rights and the fate of thousands of people on the African continent"*⁴⁶. *"The strings explicitly attached to recent EU Commission proposals also introduce elements of blackmail by threatening states that refuse to close their borders, while rewarding those which repress their own citizens or refugees in transit in the name of cooperation with Europe"*⁴⁷. Various field missions by European activists and journalists have already shown the reality of such blackmail, for example in Niger and Mali^{48, 49} where European funding is made conditional to greater border controls, which means concretely easier repatriations and quicker expulsions of illegal migrants from European countries.



The recent report of Global Health Advocates "Misplaced Trust – Diverting EU aid to stop migration"⁵⁰ concludes that *"the approach underpinning the EUTF*

is inefficient both from a political and a development perspective". For example, both in Niger and Senegal, "altering migration dynamics can increase vulnerability, by both preventing people from migrating to neighbouring countries for seasonal work and impacting the financial transfers that many communities rely heavily on. In Niger, cutting off smuggling revenues without providing viable economic alternatives is impacting a fragile stability. These altered migration dynamics are the direct result of the prioritisation of EU domestic interests over partner countries' development needs and the lack of respect for aid effectiveness principles".

Another argument is that the closure of one specific migration route does not stop the people flow, as in most cases it is simply replaced by alternative, often more dangerous, paths.

In addition, in its resolution of 13 September 2016 on the Trust Fund for Africa⁵¹, the European Parliament expressed concern that the financing of the EUTF may be implemented to the detriment of development objectives, and condemned the

use of the European Development Fund (EDF) and ODA for migration management and control in the absence of clear development objectives⁵².

A flagship project in Ethiopia?

In September 2016, media portrayed the construction of two industrial parks in Ethiopia as an example of the "ground-breaking" projects that the External Investment Plan should aim to support⁵³. According to the European Investment Bank (EIB), it constitutes "a flagship project for sub-Saharan Africa"⁵⁴, and for the British Prime Minister Theresa May it "would be a model for how to support poorer countries housing large numbers of migrants".

Through this initiative, the Ethiopian government plans to create 100,000 jobs and grant employment rights in the industrial parks to 30,000 refugees, under the so-called "Ethiopia Jobs Compact" partnership with the EIB, the World Bank and the UK Department for International Development (DfID). In this context, a package of USD 500 million in debt financing is to be mobilised, of which USD 200 million

would be provided by the EIB, alongside USD 50 million of EU grants.

The construction of industrial parks, as well as funding for training, housing and support to the settling of refugees in new communities, is seen as a solution to provide jobs to some of the 730,000 foreign refugees in Ethiopia, of which the largest groups are coming from South Sudan (284,000), Somalia (250,000) and Eritrea (155,000). According to the EIB, "many of these, in particular young men from Eritrea, use Ethiopia as a stopping point before heading to destinations in Europe"⁵⁵. At the moment, those refugees do not have formal rights to work outside refugee camps, but the Ethiopian government announced that such rights will be granted to the refugees employed in the new industrial parks.

However, such an initiative raises a number of concerns:

- What level of protection and labour rights will the refugee workers benefit from? Under this initiative, will the EU contribute to provide a vulnerable and cheap labour force to the Ethiopian government? It is no coincidence that according to the EIB, the "Government of Ethiopia is working to build on this success with a pipeline of more than 10 additional parks"⁵⁶, partly as Export Processing Zones⁵⁷. One may wonder if this is really the type of sustainable development the EFSD should aim for.

- Given the disastrous human rights track record of the Ethiopian government⁵⁸, how will the European Commission and the EIB ensure that their financing does not end up supporting human rights violations?



Ethiopian refugees, Photo by Philip Kromer (CC BY-SA 2.0)

Are EU financial institutions contributing to the displacement of populations?

The idea to contribute to the creation of jobs in emigration and transit countries in order to try and stop people moving to Europe is largely underpinning the EIP. However, at the time there is little guarantee that the jobs to be created – as in the Ethiopian case described in this report – will be decent and sustainable jobs. Subsidising the private sector to agglomerate cheap labour with low social protection remains a key risk that the EIP needs to address if it is to reach its stated goals.

For all the above-mentioned reasons, the link created between the External Investment Plan and the EU migration policies appears both flawed and artificial. Nevertheless, it is crucial to highlight that it is not too late to prevent the concrete implementation of this dangerous narrative: the EFSD could still be de facto de-linked from short term security and migration control objectives, provided that EFSD-supported projects are not made conditional to other tools of EU migration policy. “Simply” targeting the sustainable development of partner countries is enough of a struggle – as development banks’ operations have proved so far – considered the multi-faceted nature of such a broad goal.



Maasai Olkaria Kenya, Photo by *Lydur Skulason* (CC BY 2.0)

The migration level to Europe remains pretty low compared to the levels reached in Africa or in the Middle East. As part of the External Investment Plan, financial institutions are being called to the rescue to achieve long term sustainable development of emigration and/or transit countries for migration flows to Europe. However, doubts arise over whether such banks are actually aggravating this phenomenon rather than mitigating it. Indeed, in many cases the projects financed by development banks contribute to the displacement of population – one of the accelerating factors of migration.

The NGO Inclusive Development International estimates that every year around 15 million people are forcibly evicted from their homes, communities and lands to make way for development projects such as

mines, oil and gas pipelines, urban renewal schemes, mega-dams, ports and transportation infrastructure. Direct impacts of these projects, including land speculation, changes in land use and environmental pollution, further escalate the number of people displaced⁶¹.

Below are few examples shedding a different light on the IFIs track record in the field. The following investments were made by the main financial institutions benefiting from the EU blending facilities in the 2007-2014 period, and they mainly supported large-scale infrastructure projects in the energy and transport sectors:

The EIB, KfW and AFD supporting the Olkaria geothermal plant in Kenya

In 2010, the European Investment Bank (EIB), together with the

World Bank, Kreditanstalt für Wiederaufbau (KfW), the French Development Agency (AFD) and Japanese development financiers (JICA) invested in the extension of the geothermal power plants Olkaria I and IV which resulted in the resettlement of four indigenous Maasai villages⁶².

The EIB has already been supporting geothermal installations in Olkaria since 1982. Despite the EIB's long experience in the region, together with the World Bank it failed to take into account that the Maasai are indigenous people and to negotiate resettlement accordingly. This has been recognised by both banks' independent accountability mechanisms (the EIB's Complaints' Mechanism and the WB's Inspection Panel), after receiving several complaints from impacted people in the middle of 2014.

Approximately 1200 Maasai people from 4 villages were resettled from a 4200 acre area to a 1700 acres one. They were also deprived of the right to free, prior and informed consultation and consent for relocation, the right to secure customary land rights, the right to continue their culture and to benefit from the commercialisation of their natural resources⁶³. At this stage, the communities feel that their concerns have not been properly addressed by development banks and are left worse off.



*Theun Hinboun Dam Wall, Central Southern Laos.
Photo by Laurence McGrath, Wikimedia Commons.*

EIB and AFD financing the Nam Theun 2 dam in Laos

Both the EIB and the AFD joined the Nam Theun 2 dam project in 2005. The EIB promised that the dam would have a high development impact and would contribute to regional integration, sustainable economic and social development in Laos by bringing net environmental benefit, improved living standards and economic development for the local population in one of the poorest countries in South East Asia.

By the time of the dam's inauguration in 2010, problems such as destruction of fisheries, flooding of riverbank gardens and water quality problems remained unresolved⁶⁴.

In 2014 the EIB assessed that the project had resulted in increased government revenues for poverty reduction and environmental programmes. Furthermore, the bank believes that the environmental and social impacts of the project were

being addressed through significant mitigation and compensation measures, as well as through specific programmes to ensure the economic development and improvement of the living standards of local affected communities.

However, soon after, in December 2014 the Asian Development Bank and the World Bank-financed Panel of Experts (POE) reported that the Government of Laos had failed to comply with the project's Concession Agreement, having not provided necessary support to the livelihood programmes for affected villagers⁶⁵. In total, according to the NGO International Rivers, "Approximately 6,200 indigenous people living on the Nakai Plateau have been resettled to make way for the reservoir. More than 110,000 people downstream, who depend on the Xe Bang Fai and Nam Theun rivers for their livelihoods, have been directly affected by the project, due to destruction of fisheries, flooding of riverbank gardens and water quality problems."

3 A questionable development focus: poverty eradication vs economic diplomacy and business?

This section will come back to the most problematic elements of the blending model as put forward by the European Union during the last decade. As documented in various NGO reports (A dangerous Blend by Eurodad⁶⁶ and Blended Finance by Oxfam International⁶⁷), “blended finance” is far from being the best tool to achieve poverty eradication and benefit the poor. Below are some of the challenges that the EFSD will face when starting its operations:

The evaluations of already existing blending facilities cast serious doubts on the efficiency and pro-poor orientation of the EFSD

The European Commission came up with the proposed External Investment Plan without having carried out a fully-fledged evaluation and impact assessment of the already existing EU blending facilities⁶⁸. In its proposal, the Commission also fell short of drawing lessons from previous critical assessments of the functioning of those facilities.

Questionable additionality:

In its special report No 16 of 2014 on “the effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies”⁶⁹, the European Court of Auditors concluded that, despite being generally effective in mobilizing funds, blending facilities were struggling to realise their potential in terms of development impact. In particular, the auditors found that



for half of the projects examined there was insufficient evidence that the grants were necessary for the loans to be granted by development banks. Hence, in several cases the EU contribution was not even deemed necessary for the investment to take place. This basically questions the additionality of the EU blending mechanisms.

Such concerns echoed in the European Parliament’s resolution of 14 April 2016 on the private sector and development⁷⁰ – which called upon the Commission to clearly demonstrate the financial and development additionality of blended projects. Among other remarks, the Parliament emphasized that “all blending operations must be fully consistent with development effectiveness principles, such as ownership, accountability and transparency.”



At the time being, there is still no evidence available to prove the case for an expansion of blending, although the Commission claims that it took into account the recommendations of the Court of Auditors report.

– Blended operations are currently mostly targeting large infrastructure projects in middle-income countries:

Even the European Commission’s own external evaluation on the EU blending facilities (released in March 2017, but officially dating back to December 2016⁷¹) questions the innovative nature of the EFSD and its ability to reach its stated objectives.

The first conclusion of the evaluation is that “*blending allowed the EU to engage more broadly and with strategic advantage, particularly in support of large infrastructure projects and for cooperating with countries in transition to middle income countries (MIC)*”. While at a first glance such a result may sound positive, large infrastructure projects are actually nothing but the traditional type of projects led by Multilateral Development Banks in ACP countries and the neighborhood regions, as opposed to the innovative approach the EFSD claims to adopt (targeting high-risk projects in sectors currently neglected by the private sector). Indeed, not only do large infrastructure projects hardly contribute to tackle root causes of migration, but one may even argue that by displacing populations they may sometimes even more be part of the problem than of the solution.

What is more, the focus on MICs makes it even harder to see how the EFSD could really target the realities that would need support the most, such as the ones of the Least Developed Countries (LDCs). Over the evaluation’s period, 80% of the EU-backed blended projects targeted lower-middle or MICs, and only 9 projects took place in fragile states. Looking forward, “it is also apparent that without some changes in the historical practice of identifying projects, blending will find it difficult to respond to a greater prioritization on supporting the development needs of LICs”. Given the limited changes brought by the EFSD in comparison to already existing blending facilities, this finding seems little addressed by the current set-up of the EIP.

It is more about economic diplomacy & business than about development and poverty eradication

One argument often cited by the promoters of a stronger involvement of the private sector in development is that only 6% of foreign direct investment (FDI) going to developing countries ends up in fragile states, thus the investment per capita in those countries is five times lower than in other developing countries⁷². To counter this tendency, it would then be up to the public sector to provide the technical and financial assistance needed for the private sector to invest in those countries. But this approach raises a set of concerns:

First, the risk is that the European Union, via its budget derived from taxpayers’ money, ends up subsidizing business

Blurry blending

Despite its success as a buzzword in the development circles, the practice of “blending” has also been the subject of strong criticism from development NGOs including Eurodad⁷⁹ and Oxfam⁸⁰. This box summarises some of the main arguments used to call for a cautious approach towards blending:



– According to Oxfam, there is too little evidence about blending benefits in general, let alone its development impact: past



blending projects do not align with development effectiveness principles like country ownership, transparency, and accountability, and projects are often not even aimed at reducing poverty, empowering women, or protecting the environment⁸¹.

– Private finance blending is much less transparent and accountable than other aid modalities and often does not meet basic aid effectiveness criteria—particularly ownership.

– Currently there is poor evidence of impacts, and poor monitoring and evaluation.

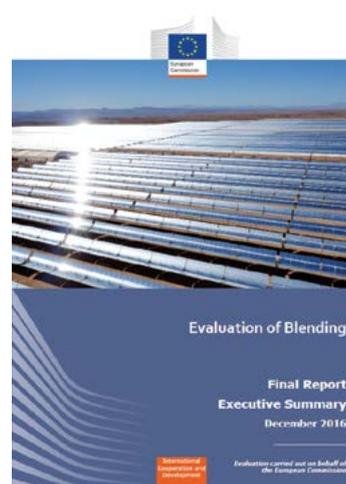
– Blending increases opportunities to use aid to support donor-country firms, therefore it incentivises tied aid.

– Private Finance blending is not likely to be suitable for poorer countries (in fact it incentivises aid to middle-income countries with attractive investment climates).

– By pooling public resources and using Official Development Aid (ODA) to subsidise private companies most often owned and domiciled in OECD countries, blending diverts aid from public investments in social programmes and essential services. Public investment, rather than blended finance whose financial⁸² and development additionality remains suspect, is often a better way of supporting private sector development in developing countries⁸³. ODA can help reduce the barriers to private sector investment through investing

– especially Western companies and multinationals – to make profits in the poorest regions of the world. To date it remains unclear to which extent the External Investment Plan will be used for tied aid and risks prioritizing European companies over local companies and further marginalize them, especially SMEs. Developing countries need to diversify their economies and industrialise, mostly for local and regional markets. Hence, development cooperation should not serve to lock them in low skilled, low paid and low added-value production.

Some of the promoters of the EIP tried to prioritize European companies as recipients of the EFSD investments. This did not come as a surprise since in the “Harnessing Globalisation” reflection paper of the European Commission it is clearly spelled out that “the EU’s proposed external investment plan is set to create win-win situations by fostering sustainable growth and



jobs in developing countries. This will help to alleviate migratory pressures and create investment opportunities for European

in essential services such as health, education and agriculture. Opportunity costs mean that more money for blending is likely to mean less money available for other uses of ODA, such as financing public services.

– Who is leveraging whom? If with 1 Euro, the European Commission can leverage between 15 and 20 Euros of investments, is the Commission equally able to influence the project and make sure its support was really necessary?

One element of response comes from the recent EC evaluation of December 2016, which shows that via the EU blending facilities, a leverage ratio of 1 to 20 was reached. The report says that blending offers the possibility for the EU to “have a potential seat at the table of lead donors”, but the team of evaluators “could not gather evidence on the extent to which the EU has actually made use of this potential” because it was out of the scope of this study. Further in the text, the study mentions that: “the supervision

and the monitoring of physical and financial project progress by the IFIs or their agents has been thorough. However, the degree to which socio-economic, transition and development impacts (as opposed to physical progress) were monitored varied and was often a weak point of the blending projects”. Such finding shows that the European Commission focused mostly on the leverage effect and making sure that the projects it supports are sound from a financial perspective, rather than on the development impact of projects⁸⁴. As Eurodad makes clear, with blending there is a risk of financial principles out-weighting development principles.

– There is a risk that private finance blending may crowd out the domestic financial sector in the host country. Nevertheless, most developing-country governments want private investment—both domestic and, frequently, foreign—to help develop their economies and create employment opportunities. So there is a rationale for Private Finance

blending if it supports national development strategies, especially in helping developing-country SMEs overcome credit constraints⁸⁵.

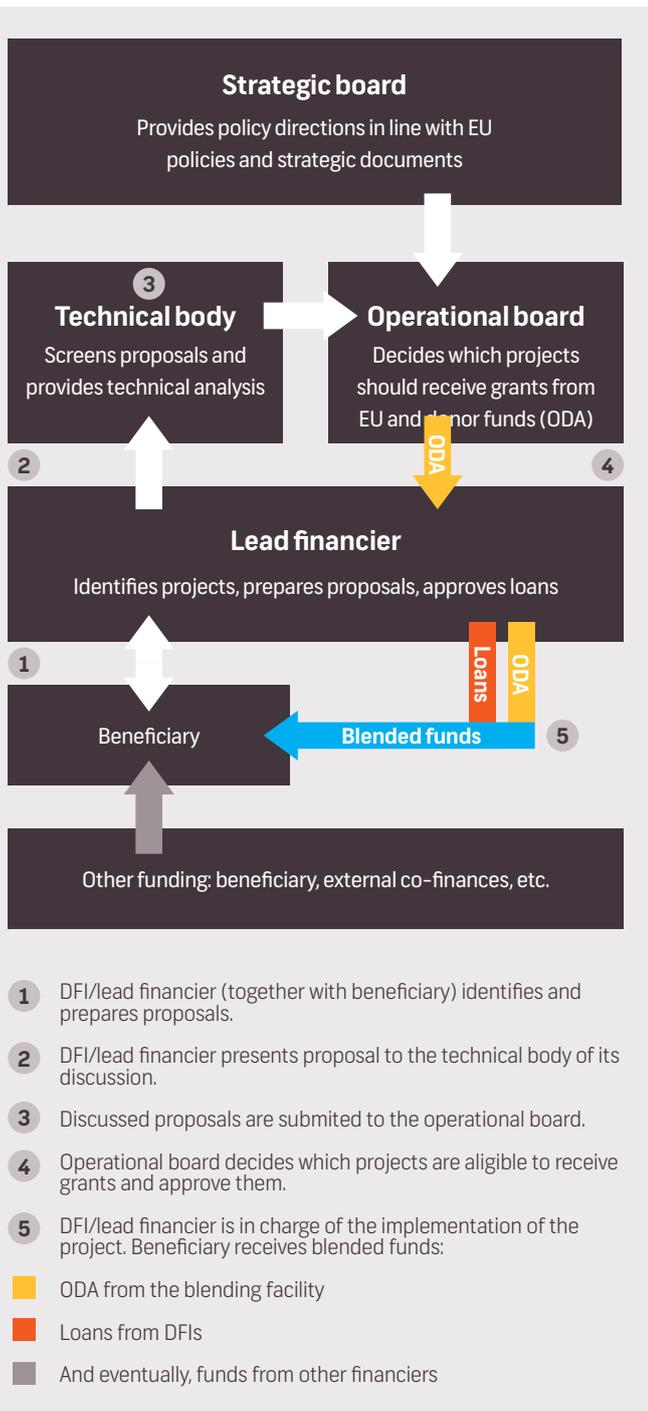
But in this case, blending should remain just one instrument out of the full toolbox of development instruments at the disposal of the European Union. At this stage, expanding blending instruments to new sectors, countries and via allocating more ODA to it is a worrying trend which does not reflect a well-designed EU development strategy.

The think tank ECDPM comes to similar conclusions in its policy paper “blending 2.0” when it says that “blending ODA with other sources of finance is one of the forms taken to stimulate and leverage private investments and finance for sustainable development. It is by no means a magic bullet, and should be used with great caution, so as to prevent unwarranted subsidy to private sector and market distortion, and waste of scarce ODA”⁸⁶.

“ The EU’s proposed external investment plan will help to alleviate migratory pressures and create investment opportunities for European companies.”

companies.”⁷³ This became evident when three Vice-Presidents of the European Commission stated in September 2016 that “Together with our partners in Africa and in our neighborhood we can help young people achieve their potential, while creating new opportunities for European firms”⁷⁴. On the other hand, the principles of development effectiveness are supposed to be enshrined in the EFSI regulation, thus a more balanced text could put local companies – especially SMEs – at the core of this investment initiative.

Equally concerning, the track record of multilateral development banks’ operations under EU blending facilities does not look bright as far as development impact is concerned, since they merely rely on a trickle down effect more than on targeted interventions with a pro-poor objective. Indeed, the recent external evaluation of EU blending facilities points out several deficiencies: “In many cases the nature of the blending projects and the comparative advantage of blending meant that blending projects aimed at macroeconomic development rather than direct poverty alleviation. [...] Large-scale infrastructure aiming at improving the macro scale economic development can be an important and also essential contribution to poverty alleviation – but the linkages are not automatic and the targeting and selection of the projects and the consideration of alternatives to better serve the poor need to be informed and justified by more in-depth analysis than



EU GRANT CONTRIBUTIONS APPROVED BY FACILITY 2007-2014 (MILLION €)

● 2010 Latin America Investment Facility (LAIF) € 190

● 2012 Caribbean Investment Facility (CIF) € 35

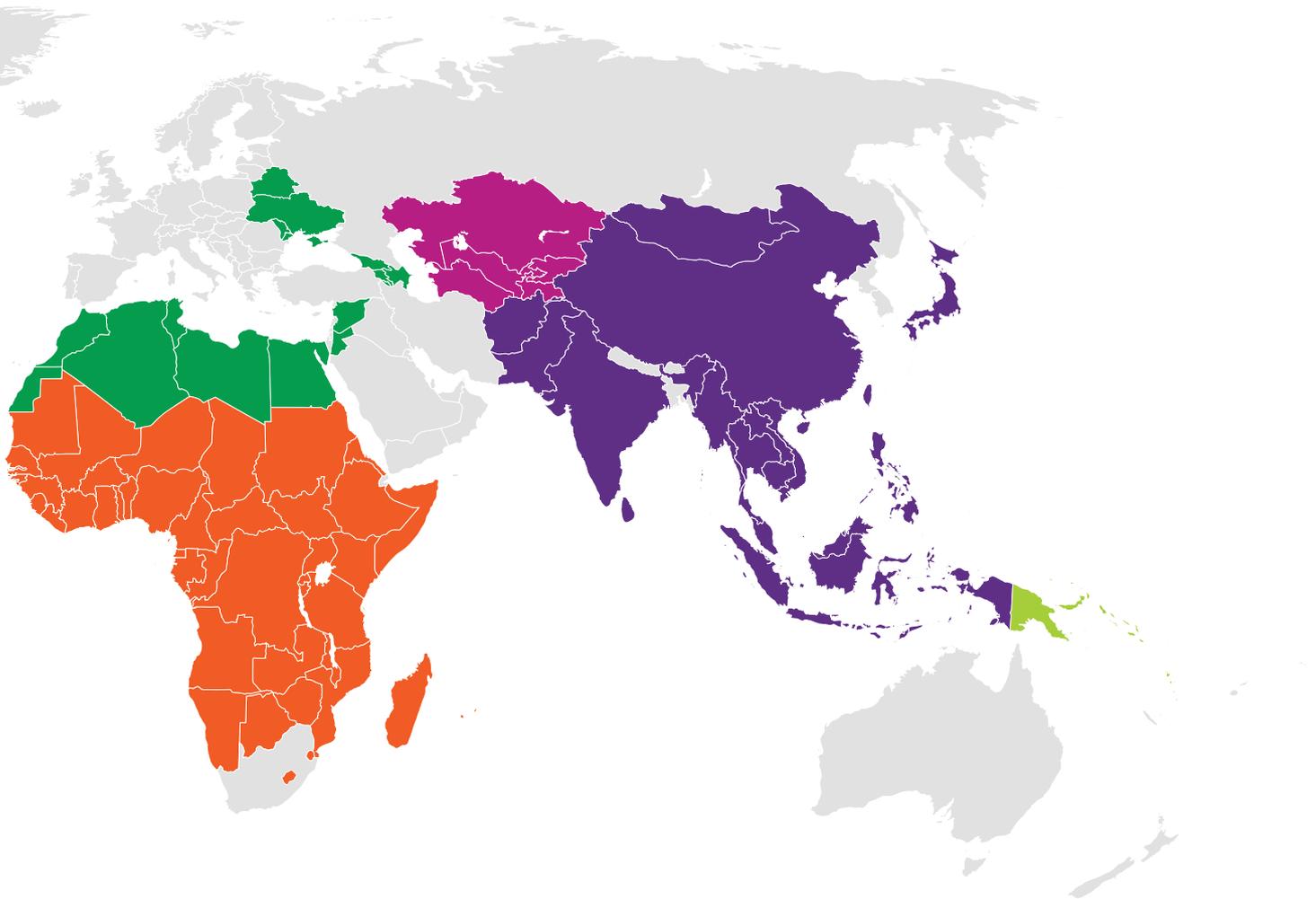
Project approval cycle in EU Blending facilities, from Eurodad – *a dangerous blending*

was usually available.⁷⁵ The evaluation also concluded that the blending instrument did not reach its full strategic potential and did not address the development challenges of lower income countries enough for a variety of reasons, including the fact that “Pro-poor objectives were not emphasized in the development of the project pipeline”.

Looking at the big picture, the External Investment Plan is also to be considered as part of the growing “economic diplomacy” concept put forward by the European Commission and the

European External Action Service (EEAS). According to a March 2017 study by the European Parliament’s research department⁷⁶, the EC and EEAS managed to put up the structure for a much more sophisticated economic diplomacy strategy than the EU’s business-promotion policy that prevailed in the past.

The EFSD can be seen as an element of the EU’s economic diplomacy toolkit, since it is an instrument to promote European enterprises, including Small and Medium Enterprises



● 2008
Neighbourhood
Investment Facility
(NIF)
€ 1045

● 2010
Investment Facility
for Central Asia
(IFCA)
€ 82

● 2007
EU-Africa Infrastructure
Trust Fund
(ITF)
€ 536

● 2012
Asian
Investment Facility
(AIF)
€ 68

● 2012
Investment Facility
for the Pacific
(IFP)
€ 9

**The new Africa Investment Facility (AfIF) will progressively substitute ITF from mid-2015*

From ECDPM <http://ecdpm.org/wp-content/uploads/DP207-Blending-GrossePuppenthal-Bilal-December-2016.pdf>

(SMEs) where the potential for job creation is greater than for multinationals, on foreign markets. In that sense, it fits within the narrow definition of „economic diplomacy“ which relates mainly to 'commercial diplomacy'.

But understood in a broader sense, the concept of economic diplomacy moves from business promotion stricto sensu to a wider notion of economic interest promotion, including via investments in third countries and shaping the regulatory environment there. In this context, the Parliament's study

highlights that "since October 2015, the European Investment Bank has cooperated even more closely with the Commission and the EEAS on building an EU economic diplomacy. The bank has engaged in activities that are not its core business such as migration, trade facilitation, possible operations in new countries (such as Belarus, Afghanistan, Iran and Cuba) and participation in international fora such as the G20. The EIB's external offices have been instructed to play a greater role in strategy-oriented meetings in order to better understand the EU's objectives, and to liaise more with EU delegations⁷⁷."

“ the External Investment Plan is also to be considered as part of the growing “economic diplomacy” concept put forward by the European Commission and the European External Action Service (EEAS) ”

A similar set of objectives can already be identified under the External Investment Plan, from investments to support the externalisation of European companies under the EFSD to activities under the 3rd pillar of the EIP (trade facilitation, etc). The room left for focusing on development impacts under this economic diplomacy concept is still to be determined given the emphasis on prioritising European interests. The first year of EFSD operations will surely give a sense of whether economic diplomacy will overshadow development objectives.

What about development effectiveness principles such as ownership and participation of partner countries?

The EFSD governance still largely relies on a top-down approach. The overarching governing body will be the Strategic Board in charge of the strategy of the overall fund. It will be composed of representatives of the European Commission, the High Representative of the Union for Foreign Affairs and Security Policy, of all EU Member States and of the European Investment Bank. Through negotiations, the European Parliament managed to gain observer status. The Strategic Board will be co-chaired by the Commission and the High Representative.

Each investment platform will have an operational board (like those for the currently existing blending platforms) with the EC, EEAS and donors as members, and IFIs as observers. These boards will advise the EC on the use of the guarantee fund to support a given project by an IFI.

A key pending question is the ownership of the EFSD and the inclusion of partner countries in decision-making processes. At this stage, there are only minimal ways for stakeholders from partner countries to have a say about the projects to take place in their countries:

- The EFSD regulation states that “Contributors, eligible counterparts, partner countries, relevant regional organisations and other stakeholders may be given observer status, where appropriate”;

- Annual consultations with relevant stakeholders should take place, and the Commission should report on a yearly basis to the EU institutions, the public and also should “inform the ACP-EU Council and the ACP-EU Joint Parliamentary Assembly as regards the use of the EDF funds”.

Such provisions fall short of ensuring sufficient participation of partner countries, be it governments or parliaments, not to mention the limited role awarded to civil society in those countries. The regulation does not even include a clear requirement of alignment with national development strategies.

The think tank ECDPM points out to some of the challenges the EFSD is confronted with. Among them, the need to fit with the principles of country ownership, as well as with Africa’s own initiatives and development plans such as the African Union’s Agenda 2063. It concludes that “to make the EIP an innovative tool with genuine added-value will require promoting the principles of coherence, efficiency, cooperation and equal partnership between Africa and the EU⁷⁸”.

In theory, the 3rd pillar of the External Investment Plan – focused on opening up a space for dialogue on policies – could be used to address some of these challenges such as ensuring coherence between various investment initiatives and fostering a bilateral dialogue with partner countries. But at this stage how this third pillar will actually function remains a mystery.

The way forward:

Key recommendations to make the External Investment Plan overcome the major challenges identified

The challenges identified in this report – especially questionable additionality and development-orientation and the problematic link to migration – are bringing major interrogations about the whole concept and business model underpinning the External Investment Plan.

Nevertheless, some of those challenges may still be tackled upfront during the implementation of the initiative. As often in development finance, the implementation will be the hardest challenge. In that regard, the EIP can be seen as a way to reform the already existing EU Blending Facilities in order to make them a truly development-oriented instrument. From that perspective, the EFSD regulation seems to offer higher safeguards and transparency level than the Blending Facilities do. Indeed, the negotiations process around the EFSD led to improving the overall direction of the EIP and to put the spotlight on its transparency, accountability and sustainability.

The Strategic Board will be in a key position to make sure that some of the problems identified in this report are solved in practice, and some of the positive principles of the EFSD regulation are put into action, especially through the guidelines it will have to produce during the first year of operations of the EIP. Indeed, Article 5.7 of the regulation calls for the Strategic Board to *“as soon as possible, adopt and publish guidelines setting out how conformity of EFSD operations with the objectives and eligibility criteria [...] is to be ensured.”*

Here are key recommendations for the implementation of the EFSD, some of which have been extracted from previous joint NGO recommendations.

• De-linking the EFSD from migration control policies

- Via the project selection, the EFSD can de facto be de-linked from migration control policies and short-term foreign policy objectives. This is imperative in order to avoid contributing to human rights violations. Avoiding investments in border management or the security sector will be key to show that it is actually a development instrument.

- EFSD operations should not be made conditional to partner countries implementing other measures or initiatives under the EU Migration Policy.

- Investments need to be targeted to areas and sectors where they are most needed and can achieve a positive impact. On the contrary, focusing solely on regions from which migration is stemming risks strengthening authoritarian regimes and lead to further human rights violations. Development cooperation must be based on the needs and the rights of recipients and not used as foreign policy leverage or be concentrated geographically on the basis of strategic interests.

• Towards a stringent approach on the respect of safeguards and climate change

- The Strategic Board should make it clear that contribution to poverty eradication, promotion of Human Rights, rule of law and democracy will be at the core of EFSD operations. In that respect, the European Commission should not outsource its responsibilities to Financial Institutions, but rather put in place a methodology to ensure that all EFSD operations are compliant with the principles of EU External Action as set out in the Article 21 of the EU treaty.

- The EFSD regulation requires that at least 28% of the financing goes to investments that contribute to climate action, renewable energy and resource efficiency. In parallel, the Strategic Board should ensure – via its guidelines – that all projects approved under the External Investment Plan are climate-proof and fully in line with the objectives of the Paris Agreement. This means de facto excluding investments detrimental to the EU climate policies, starting from the fossil fuel sector (oil, gas and coal).

- In order to avoid human right abuses and a fossil fuel lock-in, the establishment of no-go-sectors should also be set via the Strategic Board guidelines: investments linked to fossil fuels, military projects, deforestation or land-grabbing should not be benefiting from the EFSD guarantee.

- The EIP should be used exclusively to support local companies in developing countries, with a focus on micro, small and medium size companies. The EIP should not be a disguised promoter of European interests via economic diplomacy or tied aid and not crowd out SMEs in favour of large international companies. When involving the private sector in development, the EC should actively promote alternative business models which are structured to keep more value with local workers and producers⁸⁷.

- Consequently, we recommend that the EFSD focuses on small-scale projects with high development impact, rather than large infrastructure projects which are business as usual for development banks and lead to displacement of populations. High-risk projects should be understood as projects with potentially high social or environmental added-value for local population, rather than projects with a risky financial engineering only linked to the de-risking of private sector operations.

• Raising the bar on transparency and accountability

- As the new Commission's flagship development instrument, the External Investment Plan needs to score high on transparency. First, at governing bodies level, it will be key that



the minutes of the Strategic Board and Operation Board's meetings are made public. This will help understand the overall orientations of the EFSD and the project selection – why specific projects are benefiting from guarantees stemming from the EU budget. As the experience of the Juncker Plan shows, limited transparency on project selection leads to uncertainty about the additionality of financed projects. Then, the European Commission should ensure that detailed information is systematically available about all EFSD operations, including the ex-ante and ex-post assessment of the impacts of projects. Aggregated information made available in annual reports would not be sufficient in this regard. These annual reports should also refer to all pillars of the EIP, including Pillar 2 and Pillar 3.

- For all EFSD operations, a high level of visibility needs to be achieved, which also results in higher accountability: indeed, final beneficiaries and local communities have to be aware of the EU's involvements in projects on the ground, and have access to grievance mechanisms both at the relevant financial institution's level and at EU level. The European Commission should deliver on the EFSD regulation calling it to "provide the possibility of directly



Counter Balance raised NGO concerns on the European Fund for Sustainable Development at EU Parliament hearing, 8 March 2017

receiving complaints related to the treatment of grievances by eligible counterparts". Hence, a centralized EU Grievance Mechanism would become a key accountability tool for affected people to seek redress, but also for the EU institutions themselves to learn lessons from problematic projects and improve the quality of the EFSD operations.

- Ensuring public scrutiny over the operations of the EFSD will also mean to seek feedback from a wide range of stakeholders, including partner countries as well as civil society organisations and workers' representatives. This should take place under regular consultations and stakeholder meetings, as suggested by the EC regulation, but also by genuine public consultation and engagement at project level. In this respect, it will be crucial that consultations with communities at project level take place, including through the principle of Free Prior Informed Consent of local populations. Finally, the European Parliament should make full use of its observer status in the EFSD strategic Board and thoroughly examine the functioning of EFSD governing bodies, the impacts of selected projects and how they contribute to the EU development policies.

- The Strategic Board should establish guidelines regarding the third pillar of the EIP. These guidelines should aim at ensuring that the dialogue with partner countries takes place under democratic oversight, is driven by public and not private economic interests and respects the democratic channels of partner countries – such as national parliaments or social dialogue institutions.

• Evaluating the impact of the EFSD before rolling it out for the post-2020 period

In the case of another flagship initiative of the European Commission – the European Fund for Strategic Investments (EFSI) – the European Court of Auditors and the European Parliament deplored that the instrument was extended beyond its pilot phase before a genuine impact assessment had been made. This is certainly a mistake to be avoided in the case of EFSD. Indeed, unless the above-mentioned issues are addressed and ensured in the implementation phase – and via the mid-term review foreseen under the EFSD regulation, the EFSD should not be considered as a model for the post-2020 EU budget.

FOOTNOTES

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