The European Fund for Sustainable Development Plus

Maximising the EU Guarantee for Leverage and Impact

JASPER SIEGFRIED · BERNAT CAMPS ADROGUÉ · TAY DRUMMOND · MIKAELA GAVAS · LAURA GRANITO

Abstract

With increasing pressure on European development budgets, optimising the efficiency and impact of the European Union's concessional finance is critical. This paper examines how the European Fund for Sustainable Development Plus (EFSD+) guarantee instrument can be strengthened to better support sustainable development in emerging markets. While the EFSD+ plays a key role in mobilising private capital, its complex structure, fragmented administration, and risk management limitations hinder effectiveness. Through a benchmarking analysis of major guarantee providers, financial modeling of the EFSD+ provisioning rates, and expert interviews, this paper identifies three key areas for improvement: (1) structural and operational efficiency, (2) impact and effectiveness, and (3) financial efficiency and risk management, advocating for data-driven provisioning and mechanisms to mitigate foreign exchange risks. By implementing these reforms, the EFSD+ can enhance its impact, ensure more strategic capital allocation, and improve financial sustainability, ultimately advancing the EU's global development objectives.

POLICY PAPER 357 • APRIL 2025

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Jasper Siegfried
Lion's Head Global Partners

Bernat Camps Adrogué
Lion's Head Global Partners

Tay Drummond
Lion's Head Global Partners

Mikaela Gavas
Center for Global Development

Laura Granito
Center for Global Development

Jasper Siegfried, Bernat Camps Adrogué, Tay Drummond, Mikaela Gavas, and Laura Granito. 2025. "The European Fund for Sustainable Development Plus: Maximising the EU Guarantee for Leverage and Impact." CGD Policy Paper 357. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/european-fund-sustainable-development-plus-maximising-eu-guarantee-leverage-and-impact

CENTER FOR GLOBAL DEVELOPMENT
2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

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Executive summary

With European development budgets under more strain than ever, there is an urgent need to find ways to enhance the overall efficiency and impact of the European Union's (EU's) concessional finance. In March 2024, the Center for Global Development published a paper highlighting a series of policy interventions to maximise the use of EU concessional finance, including a strategic review of the deployment and effectiveness of the EU guarantee instrument.[1] The present paper examines how the European Fund for Sustainable Development Plus (EFSD+) guarantee instrument can be enhanced to better meet the evolving needs of developing countries.

Guarantees play a critical role in mobilising private capital for emerging markets and developing economies by mitigating risk and increasing investor confidence, and by offering broad coverage across commercial, political, and currency risks, among others. Accordingly, guarantees are a key instrument in the blended finance toolkit, mobilising approximately US$1.5 of private capital for every US$1 of donor capital.

Through the External Action Guarantee (EAG), the EU can guarantee financing and investment operations in partner countries up to a maximum of EUR 53.5 billion. The largest part of the EAG, at around EUR 39.1 billion, covers activities under the EFSD+. The aim of the EFSD+ is to contribute to achieving sustainable development goals by supporting investments in a wide range of areas with a global scope. The EFSD+ guarantee is deployed via a range of eligible development finance institutions (DFIs) through an "open architecture" (EUR 13.1 billion) and a dedicated envelope of EUR 26.7 billion for the European Investment Bank (EIB).

The EFSD+ has successfully expanded lending by its 13 partners and is on track to mobilise up to EUR 135 billion of public and private financing in emerging markets and developing economies. There are, however, challenges related to its complex and fragmented architecture, data gaps and additionality assessment, private-sector mobilisation, provisioning rates, and risk management.

- The EFSD+'s complexity can slow deployment of funds, create administrative bottlenecks, discourage private-sector participation, and reduce overall efficiency and transparency. The lack of robust, standardised indicators in monitoring frameworks makes it difficult to assess progress towards overarching EU policy goals.
- The unclear assessment of the EFSD+'s additionality reduces private-sector participation, lowers leverage, and diminishes the EFSD+'s overall catalytic effect.
- A single "headline" provisioning rate is insufficient to cover diverse portfolio risks and may tie up capital unnecessarily, reducing liquidity, limiting the funds available for new projects, and constraining the EFSD+'s ability to invest strategically and catalytically.

1 Mikaela Gavas, Samuel Pleeck, Andrew Rogerson, San Bilal, and Karim Karaki. 2024. "Maximising EU Concessional Finance for Greater Leverage and Impact: An Options Spread." CGD Policy paper 325. Washington, DC: Center for Global Development.

- Finally, without a suitable facility to mitigate foreign exchange risks, the EIB or other DFIs either absorb significant exposure themselves or impose it on local partners, potentially undermining both market stability and the socioeconomic objectives of the EFSD+.

Based on (1) a benchmarking analysis of major guarantees providers, including the Multilateral Investment Guarantee Agency (MIGA), the United States Development Finance Corporation (DFC), the Swedish International Development Cooperation Agency (Sida), and the Danish Investment Fund for Developing Countries (IFU); (2) financial modelling to assess the provisioning rates and risk exposure of the EFSD+ guarantees; and (3) expert interviews with stakeholders, the paper highlights three potential areas of improvement and proposes options for each.

1. **Structural and Operational Efficiency**
   Options for streamlining the architecture and simplifying the process include the following:
   - Unifying the EFSD+ programme structure under a single "umbrella" guarantee framework to standardise implementing partner agreements and consolidating to fewer, larger contracts.
   - Transitioning towards a state-backed guarantee instrument like the Sida and IFU models, by moving to an EU balance sheet–backed instrument. This would reduce reliance on fixed multiyear budgets, improve capital efficiency, and provide greater financial stability for long-term investments. It would also enhance risk management, as the EU's strong credit rating could lower the cost of guarantees, making funding more attractive.
2. **Impact and Effectiveness**
   Options to address transparency, additionality assessment, and private-sector mobilisation include the following:
   - Leveraging better information sharing between development finance institutions (DFIs) and guarantee programmes to identify when transactions are additional and ensuring that private sector participants are being crowded-in not out. Greater harmonisation of the standardised result and monitoring framework would ensure more effective implementation particularly for sector-specific additionality indicators (e.g., financial leverage, technology transfer, and improvements in regulatory frameworks)
   - Publishing up-to-date EFSD+ project- and programme-level data on public websites, including disbursements, finalised deals, and ex post evaluations. Mandatory disclosure obligations could be introduced for implementing partners to ensure consistent and timely reporting. However, the reporting requirements should be balanced and proportionate against the administrative burden on partners. This would not only improve accountability but also boost investor confidence, potentially attracting greater participation by demonstrating clear financial and development impacts.

- Creating a special niche oriented towards private-sector mobilisation by bringing in financial institutions directly regulated by the European Central Bank (ECB), including private banks under its purview. This would diversify the overall portfolio while explicitly leveraging more private-sector capital.

3. **Financial Efficiency and Risk Management**
   Options to improve risk management and facilitate more efficient use of capital include the following:
   - Encouraging data-driven provisioning by comparing external risk data with the EFSD+'s own historical default rates to assess whether its current provisioning levels align with broader market trends and best practices. This would help to identify potential inefficiencies, ensure risk assumptions remain relevant, and provide greater clarity on whether capital allocation is in line with actual risk exposure.
   - Making use of reinsurance contracts to increase guarantee capacity while protecting internal capital reserves. Reinsurance can improve portfolio diversification and enable more strategic risk-sharing.
   - Expanding support for local currency lending by reinvesting reflows from existing guarantee programmes or allocating dedicated budget resources. This would help mitigate foreign exchange risk and enhance the financial sustainability of local investments.

1. Introduction

Recent analysis by the Center for Global Development (CGD) has highlighted the need for improvement in the European Union's (EU's) concessional finance toolkit, particularly within a context of fiscal constraints and escalating development challenges. Current tools, such as grants for budget support, often do not adequately account for rising debt levels in recipient countries. Similarly, the EU's highly concessional lending for balance-of-payment challenges is largely confined to the EU Neighbourhood, and the European Investment Bank's (EIB) sovereign lending capabilities outside the EU lag those of other multilateral development banks (MDBs).

CGD has proposed a series of policy innovations to address these gaps, which include complementing EU budget support grants with concessional loans, integrating flexible and liquid concessional lending to support sectoral policy reforms into the EIB's financing toolbox, and reviewing the EU guarantee instrument.

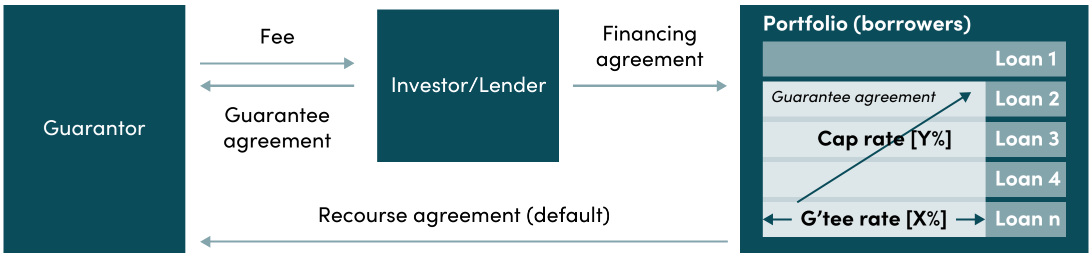
This paper focuses on potential improvements to the European Fund for Sustainable Development Plus (EFSD+) guarantee instrument. It establishes the rationale for guarantees, maps and assesses existing guarantee providers in development finance to draw lessons for the EU guarantee, and explores various guarantee scenarios for the EFSD+. It proposes three potential areas for improvement related to the instrument's structural and operational efficiency, its impact and effectiveness, and its financial efficiency and risk management.

2. The rationale for guarantees

Mobilising private capital in emerging markets and developing economies (EMDEs) is often challenging due to high perceived risk, limited collateral, and underdeveloped financial markets. To overcome these barriers, financial instruments such as guarantees play a crucial role.

A guarantee is a contractual agreement whereby a third-party guarantor assumes responsibility for a borrower's debt in the event of default, providing a safety net that encourages lenders and investors to engage in higher-risk transactions (Figure 1).

FIGURE 1. Guarantees structure



Source: Lion's Head Global Partners illustration.

Guarantees can be customised to align with specific risks, asset types, and borrower profiles. Depending on the nature of the investment, different structures can be deployed to provide optimal coverage. Table 1 provides an overview of the different types of guarantees.

TABLE 1. Types of guarantees

	Type of Guarantee	Description
Risk type	Commercial risk	Protects against the risk of borrower default (counterparty risk, debt service obligation risk)
	Risk guarantee	Covers a particular sub-risk that may lead to default or non-payment
	Credit guarantee	Covers all potential risks that may lead to default or non-payment
	Trade finance guarantee	Covers a bank's lending portfolio to stimulate the borrower's international trade activity
	Political guarantee	Commonly covers against war, civil unrest, government seizure, regulatory changes, inconvertibility
Asset/instrument type	Loan portfolio guarantee	Covers part or all of a lender's loan portfolio against default or non-payment
	Loan guarantee	Covers a single loan's default or non-payment. Also known as a project finance guarantee in the context of project finance
	Balance sheet guarantee	Leverages guarantor's high credit rating to expand the lending allowance or financier. Underlying asset varies
	Fund structure guarantee	Covers an entire fund structure or specific risk-tier. Covers against default and non-payment risk at the end of fund term
	Bond guarantee	De-risks the borrowing entity by backing principal and/or interest payment. Applied to entire issuance or riskier tranche
	Portable guarantee	Covers a specific loan on behalf of a borrower to secure better conditions from the lender
	Equity guarantee	Covers against asset devaluing
Share of coverage	Full guarantee	Covers 100 percent of underlying investment
	Partial guarantee	Covers less than 100 percent of underlying investment
Borrower	Sovereign guarantee	Extended to sovereign entities
	Nonsovereign guarantee	Extended to private sector and subnational entities

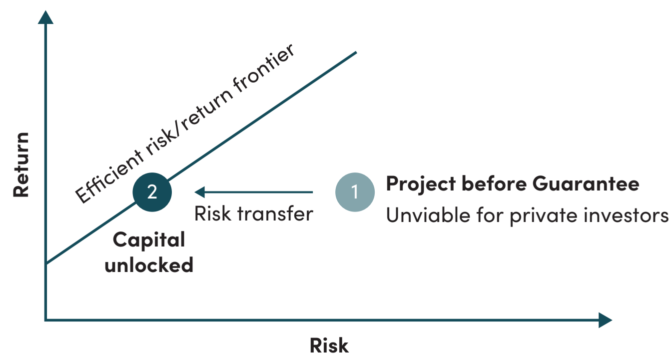
Source: Lion's Head Global Partners illustration.

The primary goal of guarantees is to improve access to finance by reducing risk exposure for lenders and investors, which they achieve through three primary mechanisms:

1. **Risk transfer:** Guarantees shift a portion of the lender's risk to a creditworthy guarantor, reducing the lender's potential losses in case of default. This makes lending more attractive, particularly in high-risk markets (Figure 2).

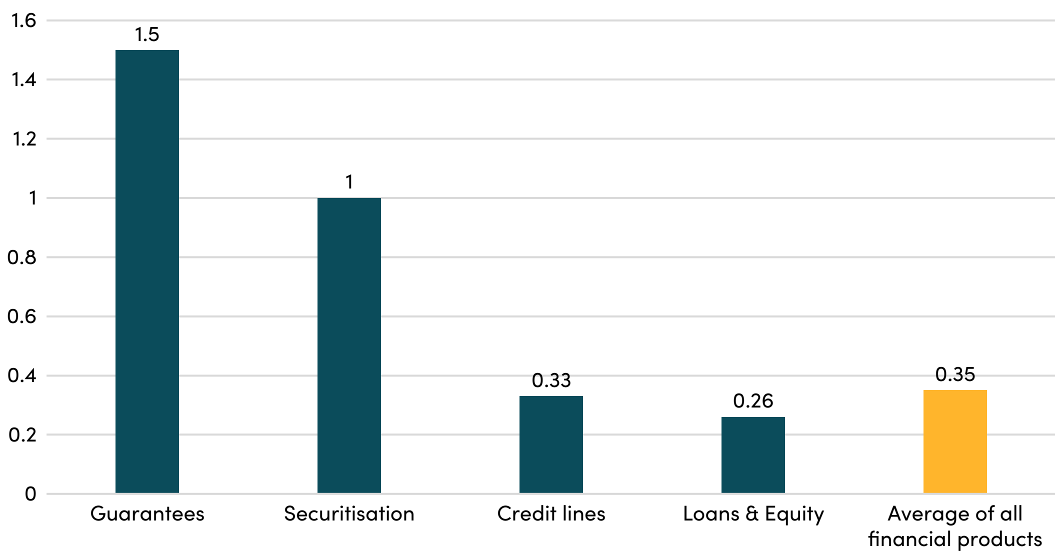
2. **Capital relief:** By assuming exposures from other participants in a transaction, guarantees allow investors to reduce their capital requirements, as set out in Basel III, or to maintain a specific credit rating. Holding reduced capital against their risk exposure increases the institutions' overall financing capacity.
3. **Leverage:** Guarantees mobilise large volumes of additional public- or private-sector financing. Since the guarantee pays out when triggered (e.g., in default scenarios), a guarantor can support a broad portfolio of loans with limited capital. As shown in Figure 3, on average, USD1.5 of private capital is mobilised for every USD1 of donor capital.

FIGURE 2. Guarantee risk transfer



Source: Lion's Head Global Partners illustration.

FIGURE 3. Mobilisation rates of financial instruments (2016–2020 MDB Aggregate Data)



Source: Lion's Head Global Partners illustration based on data from the Mobilist 2023 report Research Note: Guarantees.

Guarantees provide broad coverage across various risk categories, making them one of the most versatile instruments in blended finance (see Table 2). Compared with other blended finance instruments, guarantees are unique in their ability to cover risk across different stages of a project cycle and across a wide range of financial and operational risks.

TABLE 2. Blended finance instrument overview and risks covered

	Risk									
	Macro		Credit/Commercial			Technical		Finance	Infra Specific	
Instrument	Country Risk	Currency Risk	Credit Risk	Liquidity Risk	Demand Risk	Construction Risk	Operation Risk	Access to Capital	Lack of Pipeline	Off-Take Risk
1. Guarantees	✓		✓	✓		✓	✓	✓		✓
2. Insurance	✓			✓		✓	✓	✓		
3. Hedging		✓			✓					
4. Junior/ subordinated cap			✓	✓		✓	✓	✓		
5. Securitisation			✓	✓						
6. Contractual mechanisms					✓					✓
7. Results-based incentives							✓			
8. Grants								✓	✓	

Source: Lion's Head Global Partners illustration based on data from the 2023 Blended Finance Taskforce report on guarantees.

3. Mapping of guarantee providers

Guarantee providers play a pivotal role in mobilising private capital for EMDEs by mitigating risks that deter private-sector investment. Table 3 provides an overview of key public guarantees and currency hedge providers to EMDEs. The Multilateral Investment Guarantee Agency (MIGA) is the leading provider of guarantees in the development finance space in terms of annual commitments in volume.

TABLE 3. Overview of key guarantee providers

Provider Non-exhaustive	Annual Commitments Volume (US$ m)	Selected Risk Type Covered				Currency Focus Foreign, Local, Both
		Political	Credit	Credit Sovereign	Currency	
Multilateral Investment Guarantee Agency (MIGA)	5,000	✓	✓	✓	✓	Foreign
The Currency Exchange Fund (TCX)	1,400				✓	NA
Development Finance Corporation (DFC)	1,300	✓	✓			Both
French Development Agency (AFD)	800		✓			Both
International Finance Corporation (IFC)	720		✓			Both

TABLE 3. (Continued)

Provider Non-exhaustive	**Annual Commitments** Volume (US$ m)	**Selected Risk Type Covered**				**Currency Focus** Foreign, Local, Both
		Political	**Credit**	**Credit Sovereign**	**Currency**	
Asian Development Bank (ADB)	500	✓	✓			Foreign
Inter-American Development Bank (IADB)	400	✓	✓			Foreign
International Bank for Reconstruction and Development (IBRD)	400		✓	✓		Foreign
International Development Association (IDA)	250		✓	✓		Both
GuarantCo (multidonar local currency fund)	200		✓			Local
Swedish International Development Cooperation Agency (Sida)	150		✓			Foreign
European Bank for Reconstruction and Development (EBRD)	150		✓			Foreign
African Development Bank (AfDB)	100	✓	✓			Both

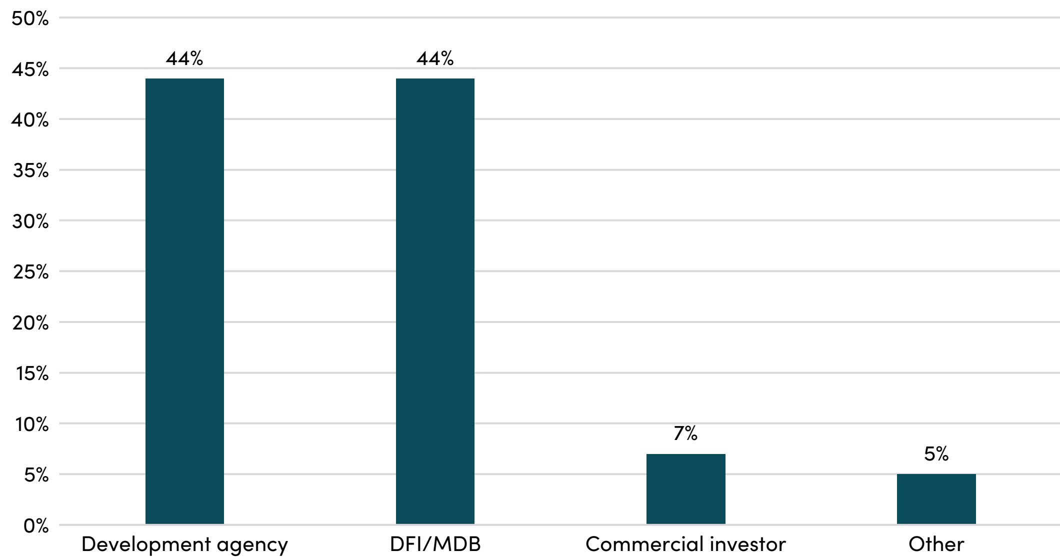
Source: Lion's Head Global Partners illustration based on data from the 2023 Blended Finance Taskforce report on guarantees.

The landscape of guarantees is primarily composed of public development institutions, private-sector issuers, and other impact-focused investors:

1. **Public development institutions:** These institutions dominate the guarantee market in development finance and are responsible for the majority of guarantees issued.
   - **Development agencies:** Organisations such as the Swedish International Development Cooperation Agency (Sida) provide substantial support through guarantees.
   - **MDBs:** Institutions like the World Bank Group (WBG)/MIGA, the African Development Bank (AfDB), and the Asian Development Bank (ADB) play a critical role in risk mitigation.
   - **Development finance institutions (DFIs):** Examples include the Dutch Development Bank (FMO), the US Development Finance Corporation (DFC), and more recently, the Danish Development Bank (IFU).
2. **Private-sector issuers:** These are primarily commercial banks and financial institutions offering guarantees for specific transactions, typically in more developed markets, on commercial terms or to support large-scale infrastructure projects.
3. **Other investors:** This category includes impact investors, foundations, and government-backed entities that provide guarantees in specialised contexts, such as climate finance or clean technology initiatives. Examples include the Green Guarantee Company.

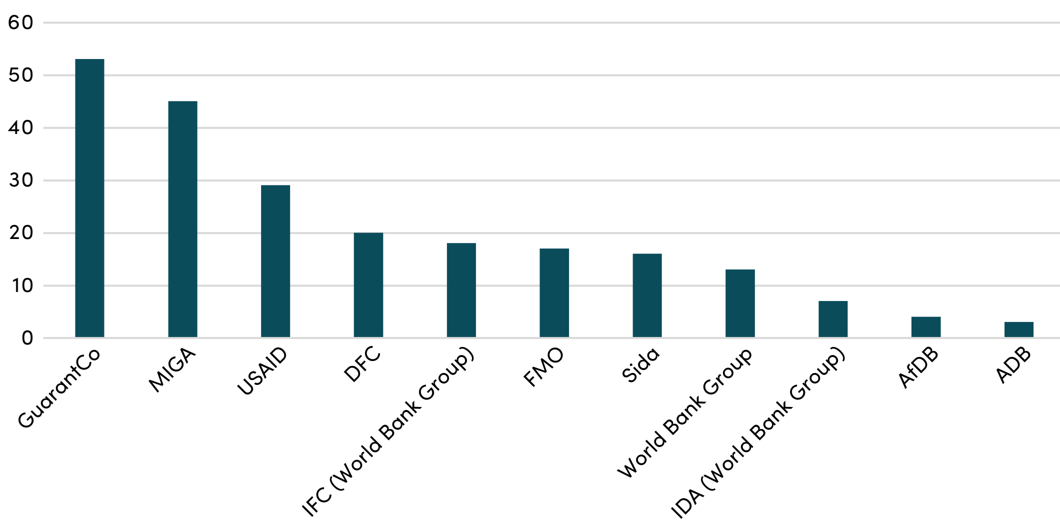
Figures 4 and 5 provide an overview of guarantee providers' activities.

FIGURE 4. Guarantee providers in the blended finance market as percentage of guarantee provision since inception[2]



Source: Lion's Head Global Partners illustration based on data from the 2023 Convergence report on Profiling Sida's Guarantee Programme.

FIGURE 5. Number of guarantees provided by MDBs, DFIs, development agencies and multidonor funds since inception[3]



Source: Lion's Head Global Partners illustration based on data from the 2023 Convergence report on Profiling Sida's Guarantee Programme.

2 Note that both Figures 4 and 5 capture only guarantee deployment into blended finance transactions that align with the definition of blended finance. For example, they do not consider pari passu risk-sharing agreements between two public institutions to be blended unless there is clear evidence of private-sector mobilisation. Therefore, not all guarantees provided by development agencies are captured in these figures.

3 Note that the guarantee function of USAID (the US Agency for International Development) was transferred to DFC with the latter's establishment in 2019.

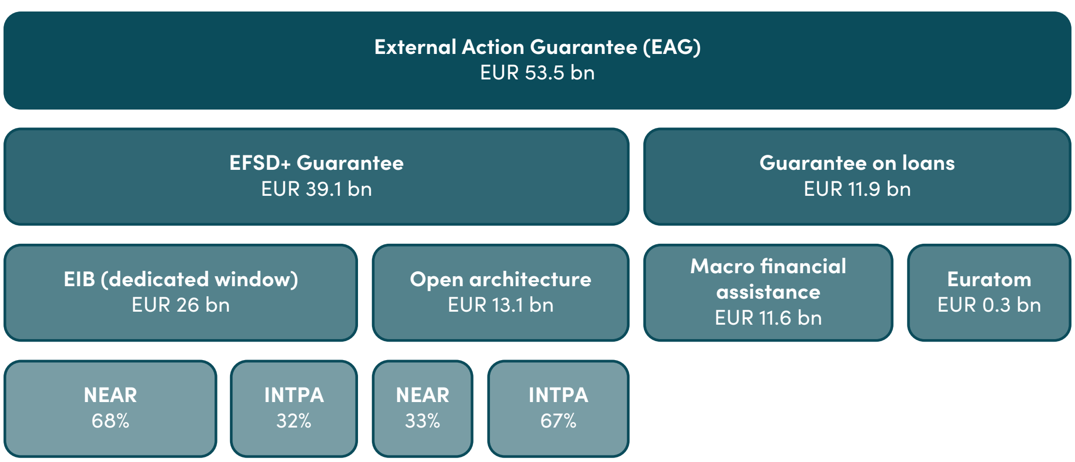
4. The EU guarantee architecture

This section provides a comprehensive examination of the EU's external investment framework under the Neighbourhood, Development, and International Cooperation Instrument—Global Europe (NDICI–Global Europe), with particular focus on how the EFSD+ has consolidated and expanded previous financial tools. It evaluates disbursement progress, comparing publicly available figures against internal estimates to underscore transparency concerns. It examines the effect of provisioning rates, revealing opportunities for greater impact in high-risk contexts, and outlines the EFSD+ project approval process, detailing the steps from initial pipeline coordination with the European Commission (EC) through final board approvals. Finally, it presents the overarching objectives of the EFSD+, emphasising its role in fostering cooperation, supporting stability and peace, tackling global challenges such as climate change, and swiftly responding to crises.

4.1 Establishment and structure of the EFSD+

The NDICI–Global Europe, established in 2021, introduced a new investment framework for external action that consolidated the plethora of financial tools in multiannual financial framework (MFF) prior to the 2021–2027 period. The NDICI–Global Europe consolidated regional blending facilities, the Guarantee Fund for External Actions, and other instruments into a single worldwide blending facility and a single guarantee mechanism (External Action Guarantee, or EAG), which together form the EFSD+. Figure 6 illustrates the components of the EAG.

FIGURE 6. EU guarantees architecture[4]



Source: Lion's Head Global Partners illustration based on publicly available data in European Court of Auditors Evaluation of the External Action Guarantee Opinion 03/2024.

4 Acronyms in the figure: Neighbourhood and Enlargement (NEAR), International Partnerships (INTPA). The EAG can cover investment operations up to a theoretical maximum of EUR 53.5 billion. The actual guarantee capacity under the initial allocation is around EUR 51 billion. This effect trickles down to each of the windows, resulting in some discrepancy in the figures.

The EFSD+ retained the core objectives of its predecessor: fostering sustainable development, economic resilience, and investment in partner countries. However, it also introduced several key improvements:

1. **Increased financial capacity:** The EFSD+ expanded its budget significantly, with a financial envelope of up to EUR 39.1 billion. This increased capacity allowed it to target more ambitious projects, especially in the areas of green energy, climate resilience, and digital infrastructure.
2. **Policy-first principle and strategic investments:** EFSD+ guarantees are guided by a programming process that prioritises flagship investments and thematic strategic priorities, such as Team Europe Initiatives. Guarantees are allocated through calls issued by the European Commission (EC) and evaluated in semi-annual pipeline review meetings of the EFSD+ operational and strategic boards. The EFSD+'s closer alignment with the EU's Global Gateway ensures alignment with the EC's overall policy goals.
3. **Geographic and sectoral expansion:** Unlike the EFSD, which focused primarily on Africa and the European Neighbourhood, the EFSD+ adopted a global scope that also includes countries in Latin America and the Caribbean, Asia, and the Pacific. It also introduced new investment windows, including one for human development and one for sustainable finance (which supports other initiatives including green bonds).
4. **Greater flexibility and synergies:** Merging the EFSD with the blending facilities was expected to allow for more flexible blending of grants, loans, and guarantees across different regions and sectors, fostering synergies with other EU financial instruments and external partners, such as the EIB and development banks.

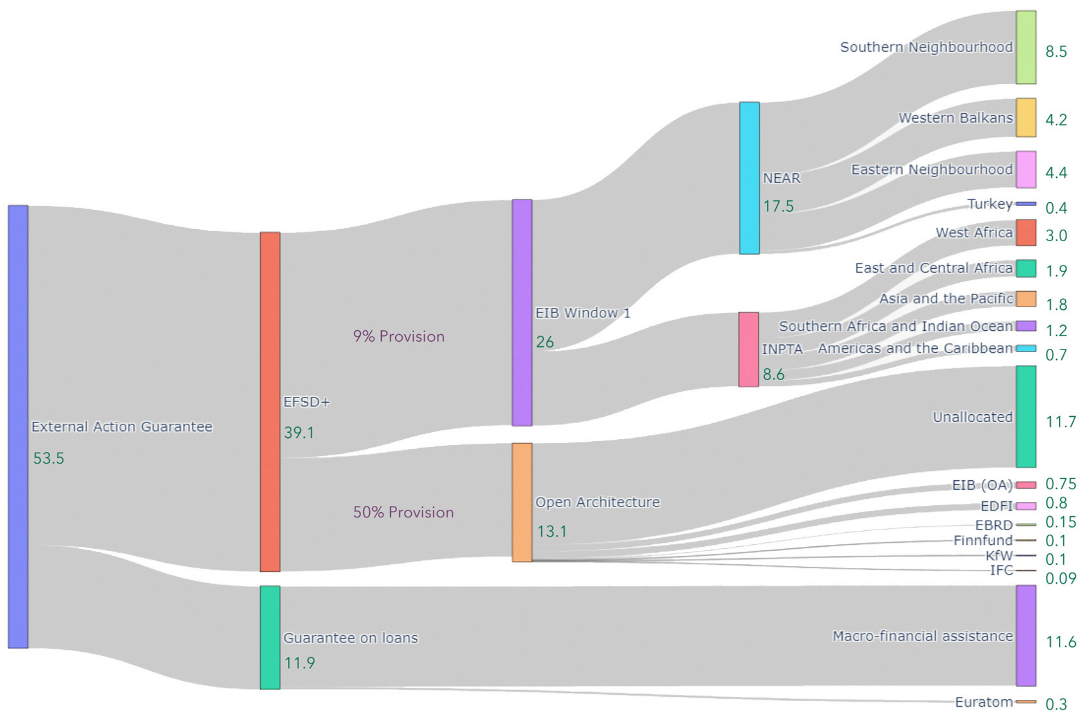
The EFSD+ guarantee is deployed via a range of eligible development finance institutions divided into two instruments, which in total offer up to EUR 39.1 billion of risk-sharing instruments, as illustrated in Figure 7:

1. **Open Architecture Guarantees:** The EUR 13.1 billion EFSD+ open architecture allows a broad range of (predominantly European)[5] financial institutions, including DFIs, development banks, and other international financial institutions, to access EU-backed guarantees. The list also includes the European Development Finance Institutions Management Company (EDFI MC), which accesses EFSD+ guarantees for several guarantee windows to facilitate access for some of the smaller DFIs.
2. **EIB dedicated envelope:** The EC provides a dedicated envelope of EUR 26 billion in guarantee capacity to back the EIB's investments outside the EU in sectors such as clean energy, green infrastructure, and health.

5 Guarantees can also be issued to the AfDB and the International Finance Corporation.

Within the EFSD+, the EIB has two dedicated windows, Investment Window 1 (highlighted above and in Figure 7 below) and Investment Window 4, which is financed by African, Caribbean, and Pacific (ACP)[6] reflows, alongside access to the open architecture. Accordingly, over 70 percent of the EFSD+ is earmarked for the EIB.

FIGURE 7. Overview of the flow of capital from the EFSD+ from the end of 2023[7]



Source: Lion's Head Global Partners illustration based on publicly available data in European Court of Auditors Evaluation of the External Action Guarantee Opinion 03/2024.

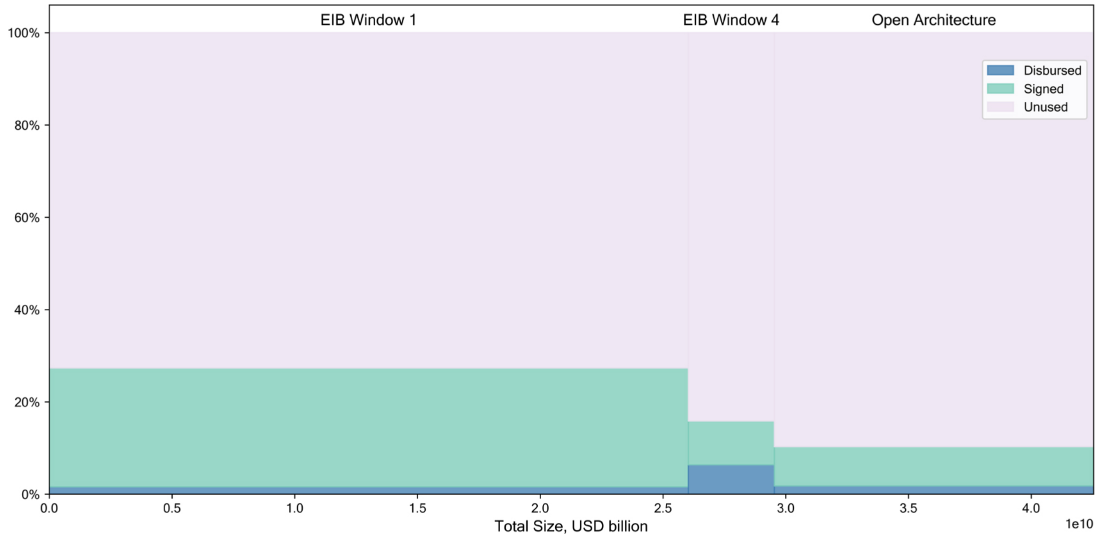
4.2 Disbursement to date based on publicly available data

As of early 2025, publicly available data indicate significant variation in disbursement progress across the investment windows. Figure 8. shows uneven progress across the investment windows to date, varying between 15 and 30 percent disbursement. Interviews conducted in early 2025 suggested that the current average disbursement is close to 70 percent. The discrepancy between the latest public data and internal figures highlights the need for reporting and greater transparency.

6 African, Caribbean, and Pacific Countries Investment Facility, set up under the Cotonou Agreement.

7 Acronyms in the figure: Neighbourhood and Enlargement (NEAR), International Partnerships (INTPA), Association of European Development Finance Institutions (EDFI), European Bank for Reconstruction and Development (EBRD), Kreditanstalt für Wiederaufbau (KFW).

FIGURE 8. Size and percentage of the EFSD+ disbursed by window[8]



Source: Lion's Head Global Partners calculations based on publicly available data from EC Evaluation of the EU's External Financing Instruments for the 2014–2020 and 2021–2027 Multiannual Financial Frameworks.

4.3 Provisioning

Provisioning rates for the EFSD+ were designed to ensure adequate budget allocation within the current MFF. Figure 9 shows the provisioning rates per investment window.

FIGURE 9. Provisioning rates per investment window

European Investment Bank €26 bn	Open Architecture €13.1 bn

Investment Windows

European Investment Bank

Provisioning rate: 9% (including non-sovereign operations)

1. Sovereign and noncommercial subsovereign (EIB Exclusive)
2. Commercial subsovereign (Non-EIB Exclusive)
3. Political risk guarantee for private sector lending (Non-EIB Exclusive)

Provisioning rate: 50%

4. African, Caribbean, and Pacific (ACP) private sector guarantee

Open Architecture

Provisioning rate: 50%, already under the EFSD

1. Connectivity: transport, digital, and energy
2. Growth & jobs, SMEs and circular economy
3. Sustainable agriculture, biodiversity, and forest
4. Cities

Provisioning rate: 50%, new under the EFSD+

5. Sustainable finance (including green bonds)
6. Human development

Source: Lion's Head Global Partners illustration based on publicly available data in European Court of Auditors Evaluation of the External Action Guarantee Opinion 03/2024.

8 Interviews highlighted that the most recent figure may be closer to 70 percent across the EFSD+.

Provisioning the EFSD+ at 9 percent for sovereign and 50 percent for non-sovereign guarantees was determined ex ante by constructing a "dummy portfolio" of projects so that the EFSD+ could be budgeted for in the current MFF. Notably, within a private sector project, any equity guarantee must be provisioned at 100 percent. From a capital perspective this an inefficient way of deploying a guarantee. In addition, analysis of publicly available data and expert interviews suggests that requiring the EFSD+ to ex-post construct a portfolio that meets these provisioning rates may neither be the most efficient use of capital nor fully capture the differences in operations and differing risk profiles of individual projects. It is to be determined how capital provisioned under the EFSD+ will be allocated once the guarantee expires.

Analysis also shows that the EFSD+ may have additional capacity for lending in fragile and high-impact contexts. Simulations based on publicly cited EIB EFSD+ projects indicate expected loss fractions ranging from 11.7 percent (with no downgrade) to over 17 percent (with a two-notch downgrade). Given that 23 percent of the EIB's projects are non-sovereign and 77 percent are sovereign, the effective portfolio provisioning rate is approximately 18 percent. The delta between the simulated 11.7 percent and effective 18 percent suggests room for expansion.

4.4 EFSD+ project approval process

Under the open architecture, the EFSD+ has supported a total of 17 projects (see Annex 7.2 for the complete list), each with an implementing partner. Each project includes a process of upstream coordination whereby the DFI shares its pipeline with the EC and demonstrates eligibility for the EFSD+. The EC then greenlights each project before it is submitted for DFI board approval. The overall process is in the order of months, depending on the EC's policy steer. The process length has been cited as a significant limitation for DFIs themselves and for engaging the private sector.

4.5 EFSD+ transparency monitoring, evaluation, and learning

The EFSD+, established under Regulation 2021/947 of the European Parliament and of the Council, is designed around four main objectives:

1. Promoting dialogue and cooperation with partner countries and regions in the Neighbourhood, sub-Saharan Africa, Asia, the Pacific, the Americas, and the Caribbean
2. Seeking special partnerships and deeper political cooperation with European Neighbourhood Policy countries, grounded in peace, stability, democracy, and the rule of law
3. Acting at the global level to protect and advance democracy, human rights, gender equality, and the rule of law, and to support civil society, foster stability, prevent conflict, and tackle worldwide challenges such as climate change and migration
4. Ensuring a rapid response to crises, instability, conflicts, and other resilience challenges, while also addressing urgent foreign policy needs

These objectives are measured through a large set of monitoring, evaluation, and learning (MEL) indicators, which capture progress in (1) governance and the rule of law; (2) socioeconomic development, agriculture, and environmental protection; and (3) peacebuilding and human rights. Indicators such as poverty rates, numbers reached by health and education programmes, smallholder support, and investment leverage help track socioeconomic improvements. Environmental impact is assessed through measures of emissions reductions, ecosystem protection, and renewable energy capacity. Additional indicators cover access to water and sanitation, support for migrants and refugees, and the influence of EFSD+ actions on trade and policy developments. Annex 7.1 provides a full summary of the regulation and MEL strategy.

While this array of indicators is comprehensive, interviews highlighted that they are broad and lack specific quantitative targets, resulting in a lack of concrete criteria to evaluate a programme's success. In many cases, these measures can correlate with the programme's activities rather than proving a direct causal link. Improvements in these indicators may be influenced by a host of other factors external to support by the EFSD+ and therefore may serve more as general proxies for change rather than definitive evidence of the EFSD+'s direct impact.

5. Assessing guarantee providers and key lessons

This section examines selected guarantee providers through a tiered approach that assesses their organisational, operational, and technical design. The first tier addresses organisational considerations, with emphasis on mandates, state sponsor relationships, and balance sheet implications. The second tier addresses operational structures, such as institutional housing, risk management processes, and collaboration. The final tier addresses the technical processes, such as guarantee pricing, risk metrics, and provisioning approaches. This section also examines IFU, MIGA, and Sida in greater detail, analysing their approaches. It concludes with lessons relevant to the EFSD+. The Annex provides more detail on the assessment framework used.

5.1 Key characteristics of other existing guarantee programmes

Table 4 provides a summary of key indicators derived from the benchmarking analysis. The analysis highlights both commonalities and distinctive approaches across institutions, offering insights into the practices of and areas for improvement for EFSD+ guarantees.

TABLE 4. Overview benchmarking of guarantee providers

● Balance sheet ● Bond ● Fund ● Partial credit ● Partial risk ● Policy-based ● Portfolio ● Project/Loan ▭ Interviewed

	Inception	Category	State Sponsor	Housing	Size ($ bn)	Deployed ($ bn)	Mobilisation Ratio	Structure	G'tee Types
ADB	N/A	Multilateral	ADB Members	MDB	N/A	N/A	N/A	MDB	Partial credit, Partial risk, Policy-based
AfDB	2000	Multilateral	AfDB Members	MDB	N/A	N/A	2	MDB	Partial credit, Partial risk
EFSD+	2021	Multilateral	EU	EC	39.1	2.1	2	EC Dev Budget	Partial credit, Portfolio, Project/Loan
GuarantCo	2005	Multilateral	7 Countries	Private	N/A	N/A	3	Private	Partial credit, Portfolio, Project/Loan
MIGA	1988	Multilateral	WB Members	MDB	31.5[a]	84.5	2	MDB	Partial credit, Policy-based, Portfolio, Project/Loan
DFC	2019	Bilateral	US	Govt	1.0	N/A	N/A	Government	Bond, Portfolio, Project/Loan
IFU	2022	Bilateral	Denmark	Govt	0.2	N/A	10	Government	Partial risk, Portfolio, Project/Loan
Norad	2024	Bilateral	Norway	Govt	0.4	N/A	3	Government	Partial risk, Project/Loan
Sida	2009	Bilateral	Sweden	Govt	2.8	1.9	2	Government	Balance sheet, Bond, Fund, Portfolio, Project/Loan

Source: Lion's Head Global Partners calculations based on publicly available data and Profiling Sida's Guarantee Programme.
Note: [a]Gross exposure.

Overall, guarantee programmes in development finance can be grouped into two models: state-backed and independent. State-backed programmes, such as those from IFU, Sida, and Norad (the Norwegian Agency for Development Cooperation), rely on the sovereign's credit rating and balance sheet, enabling them to transfer risk to the state's debt management structures. In contrast, independent programmes like MIGA and EFSD+ do not have this backing and instead rely on their own balance sheets or budget allocations. This fundamental difference influences operational and technical design features, including provisioning and risk management. As detailed in the following sections, these differences affect governance, project selection, pricing strategies, and risk appetite, shaping the objectives of each provider in distinct ways.

5.1.1 Organisational considerations

A. State-backed models

State-backed programmes resemble budgetary lines that draw on national debt facilities. IFU's and Sida's structures illustrate this approach, with the Danish and Swedish states, respectively, absorbing credit risk through national accounts. Operationally, the Sida and IFU models outsource calculation of the expected loss, and therefore guarantee pricing, to their national debt management offices.[9] This leaves Sida and IFU free to focus on origination and evaluation of the guarantees.

9 In the case of IFU, reliant on the Swedish debt office's calculation.

Since the guarantees are backed by the state balance sheet, any shortfalls incurred by the programme lead to additional state borrowing rather than to a call on an internal capital pool.

B. Self-sustaining models

MIGA is an example of a self-sustaining programme that carries exposures off its own balance sheet and has vertically integrated its full risk assessment to price the guarantees through economic capital models. MIGA's mandate restricts its capacity to offer coverage at fees below actuarial benchmarks, since any persistent shortfall would compromise its ability to retain capital for unexpected losses. This division between self-funded and government-backed frameworks produces varied provisioning arrangements and shapes the range of transactions that fall within each institution's scope. Annex 7.4 provides a detailed comparison. The EFSD+ would also be categorised as self-sustaining, since it relies on a limited budget allocation for a specific timeframe.

The sole exception to this categorisation is the DFC, which must be self-sufficient despite being a state-backed entity and does rely on a borrowing regime. It therefore provisions guarantees to be internally self-sufficient, with any concessional pricing coming from partner institutions or US government agencies.

5.1.2 Operational approaches

Risk evaluation

- **MIGA:** MIGA conducts comprehensive country evaluations through its internal team of sovereign risk specialists, who consider macroeconomic trends, currency inconvertibility risks, and exposure to conflict or civil disturbances. These assessments use reference points that may differ from the standard rating agency scales. Based on these evaluations, MIGA sets premiums, allocates economic capital against individual guarantees, and reviews portfolio-level correlations to determine the capital reserves needed.
- **State-backed models:** State-backed guarantee programmes, such as those implemented by Sida and IFU, typically rely on intergovernmental cooperation for risk evaluation. For example, IFU and Sida co-guarantee transactions, in which the Danish government relies on the Swedish national debt office for risk-rating and pricing, using standard credit rating agency–based approaches. This differs from MIGA's more customised approach, because the Scandinavian governments tend to rely on shared regulatory alignment and standard risk assessments, rather than on MIGA's economic capital method. For additional details on MIGA's processes see Annex 7.5.
- **DFC:** In contrast, as a US government–funded model, DFC often works alongside other US agencies like the US Agency for International Development (USAID), blending budgets for provisioning. Risk evaluation combines agency-specific assessments and standard US government frameworks.

Reinsurance

- **MIGA:** To limit its own risk and increase its lending capacity, MIGA reinsured about two-thirds of its portfolio[10] and maintains reinsurance relationships with approximately 10 reinsurance providers. Through quota-share arrangements, MIGA cedes a portion of each guarantee to expand its capacity while controlling its net exposure. The reinsurers agree to follow MIGA's financial performance, and MIGA regularly reassesses the reinsurers' credit risk. Policy guardrails ensure that MIGA is not merely a pass-through entity but retains control over its risk exposure.
- **State-backed models:** State-backed guarantee programmes do not engage in reinsurance practices. Sida's and IFU's risk is largely backed by sovereign support, reducing the need for additional reinsurance coverage. Unlike MIGA, which mitigates risk through reinsurance partnerships, these programmes rely on the strength of the state to absorb potential losses.

Data sharing and peer learnings

- **MIGA:** One of MIGA's key operational strengths is its ability to share data and best practices through collaborations with private insurers, export credit agencies, and DFIs. MIGA participates in the Berne Union, whereby institutions exchange loss data and insights on risk assessment methodologies. This peer learning network enhances MIGA's ability to accurately price and issue guarantees. The regular sharing of loss data with other private insurers and development institutions also ensures that MIGA remains aligned with industry best practices. MIGA is part of the Global Emerging Markets (GEMs) consortium, along with DFC, GuarantCo, and other MDBs and DFIs. Through this consortium, the institutions anonymously share data on the credit risk of their projects in EMDEs. In return, they gain access to aggregated GEMs statistics, including observed default rates, rating migration matrices, recovery rates by geography and sector, and other key financial insights over different time periods.
- **Sida and IFU:** Both Sida and IFU benefit from informal yet robust peer exchanges within the Nordic region. Institutions such as IFU and Sida share knowledge, learn from each other's experiences, and align their operational practices. While these agencies may not operate on the same scale as MIGA, they are deeply embedded in a collaborative framework that strengthens their approach to risk management and development finance.
- **DFC:** DFC data sharing and peer learning primarily occur through collaboration with USAID and other US government agencies. These agencies exchange insights on risk evaluation and financial provisioning through their intergovernmental processes. This collaboration has been historically influenced by the merger of the US Overseas Private Investment Corporation and the USAID Development Credit Authority, which continues to shape how DFC learns from other agencies' practices.

10 According to the World Bank's MIGA Financial Statements provided on the Finance One website.

5.1.3 Technical processes

Risk assessment and loss horizon

- **MIGA:** MIGA uses a three-year unexpected loss horizon at the 99.99th percentile, anchored by sovereign ratings, project characteristics, and correlation parameters. These factors account for macroeconomic covariances across regions and sectors. Each project is calibrated using macro-level data and an internal view of claim frequency and severity, focusing on political risks, such as expropriation and breach of contract. While MIGA's internal claims history is limited, additional data from insurers and export credit agencies, shared through forums like the Berne Union, enhance these calibrations.
- **State-backed models (IFU, Sida, DFC):** The Swedish debt office, which manages Sida's technical processes, primarily uses international credit ratings and its established framework to determine default probabilities. These models consider the likelihood of default, loss given default, and administrative costs. For high-risk environments, where fees may be prohibitive, aid transfers reduce end-user guarantee fees to support investments in lower-rated markets. The DFC focuses on credit-based guarantees, provisioning from a budget line to cover potential losses. Default rates are estimated from private-sector portfolio analyses, with an 80 percent cover limit. Capital is held against shortfalls, with potential additional resources drawn from other agencies.

Guarantee pricing and capital management

- **MIGA:** MIGA's guarantee pricing process is highly detailed and incorporates reinsurance counterparty exposure, reflecting default risk from private reinsurers. This model produces distinct calculations for project-level capital charges and portfolio reserves, setting thresholds for net exposure, with MIGA retaining a minimum share of each guarantee. This process enables MIGA to assess portfolio loss comprehensively, which distinguishes it from other guarantee providers.
- **State-backed models:** IFU and Sida guarantee fees are primarily based on the probability of default and loss given default, with the Swedish debt office applying its framework to determine these metrics. In high-risk environments, where fees may otherwise become excessive, transfers from aid budgets help to reduce guarantee fees, enabling investments in lower-rated markets without requiring internal capital buffers. The DFC's model is distinct in that it focuses on credit-based guarantees, with a separate political risk product. Capital provisioning comes from a dedicated budget line, with an 80 percent cover limit and capital held against potential shortfalls.

Additionality

- **Sida:** Among the evaluated guarantee programmes, Sida is unique in its established process for assessing additionality, which ensures that guarantees have a positive impact by mobilising capital that otherwise would not participate in the market. Sida's market knowledge allows it to distinguish between purely commercial transactions and those that provide additional value, from both a financial and an impact perspective.
- **Others:** Other guarantee providers do not have a formalised process for assessing additionality, though it can be implicitly accounted for through their model designs (e.g., by ensuring guarantees are used in higher-risk environments or sectors where private capital is limited).

5.2 Lessons for the EFSD+

1. **Clarity in pricing and provisioning:** Entities such as MIGA prioritise insurance-based models that link fees, provisioning, and capital usage in a self-contained manner. For the EFSD+, this arrangement highlights the importance of clear and consistent pricing, along with transparent provisioning processes, to avoid confusion and ensure market trust.
2. **Balancing coverage and development outcomes:** Government-backed programmes, such as those modelled on IFU and Sida, operate with different targets for coverage and development outcomes, given that losses are absorbed by fiscal authorities. The EFSD+ can benefit from understanding the balance between coverage and the need to meet development goals, while accounting for the fiscal implications of losses.
3. **Streamlining due diligence and fee disclosure:** Interviews with stakeholders suggest that extended due diligence and late-stage fee disclosures discourage private investors. The EFSD+ could streamline its approach by providing earlier pricing signals and clear final risk assessments to reduce transaction times and encourage more private-sector participation.
4. **Expanding capacity with reinsurance:** Reinsurance contracts can help expand capacity while preserving internal capital. However, they require ongoing monitoring of counterparties to ensure stability. The EFSD+ could consider adopting reinsurance strategies to increase outreach while maintaining financial sustainability.
5. **Consolidation and portfolio view to reduce risk:** Consolidating guarantee issuance under a unified framework that does not separate between INTPA and NEAR, and maintaining a portfolio-level view of exposures can help reduce concentration risk. The EFSD+ could adopt a similar approach to strengthen its ability to manage risk and improve its overall guarantee distribution strategy.

These lessons highlight important areas for improvement for the EFSD+, which seeks to optimise coverage, ensure adequate capital reserves, and deliver development impact in challenging markets. By examining the differences in mandates, operational processes, and technical underpinnings of different models, the EFSD+ can refine coverage structures, adopt reinsurance to expand outreach, and streamline processes that combine cost recovery with development objectives.

6. Strengths, challenges, and proposed solutions for the EFSD+

The EFSD+ has so far successfully expanded lending by its 13 partners. Offering risk-sharing instruments of up to EUR 40 billion, the EFSD+ is on track to mobilise up to EUR 135 billion of public and private financing in EMDEs. The EFSD+ not only has built on the scale of its predecessor but also is more fully embedded in the EU's broader development finance system. This integration, aligned with strategic initiatives such as the Global Gateway, enhances coordination among various EU development finance instruments and DFIs and ensures that projects meet both financial and development objectives.

Nevertheless, there are challenges related to the EFSD+'s complex and fragmented architecture, data gaps, additionality assessment, provisioning rates, and risk allocation and management. Proposed solutions for each of these challenges aim to enhance the effectiveness of EFSD+ guarantees.

6.1 Structural and operational efficiency—complex and fragmented architecture

Programmatic complexity: The EFSD+ sits within a broader set of EU external financial tools under the NDICI–Global Europe instrument. While the intention was to simplify and streamline operations, the result has been complex in five ways:

1. **Entry for implementing partners:** The EFSD+ provides guarantees only to banks that pass the pillar assessment, which entails a prolonged administrative process and limits implementing partners to public institutions, excluding private entities
2. **Programme structure:** The EFSD+ is programmatically complex, spread across three investment windows for over 17 programmes, each served by overlapping institutions with varying provisioning rates and funding sources.
3. **Coordination:** The numerous implementing DFIs require central coordination from the EC to align with their policy objectives. Interviews suggested that scarce human resources at the EC, combined with a high number of programmes to manage, may limit the attention each project receives. Moreover, implementation may require extra resources, since DFI-EC contracts are under direct management of and delegated to the implementing partners, contain clawback provisions, and must be compliant with capital requirement regulations.[11]
4. **Ex ante provisioning:** The EFSD+'s design as a closed-ended instrument (with a fixed budget over a seven-year period) might constrain issuing guarantees on longer-term debt beyond the seven years of the MFF. This may complicate longer-term projects in certain sectors, such as infrastructure or vaccine manufacturing.

11 The EU's prudential framework for banks and investment firms.

5. **Delivery timelines:** Technical and policy alignment requirements alongside the complexity of custom guarantee products can lengthen timelines, resulting in private partner exits and missed opportunities.
6. **Enhancing EU collaboration to mitigate crowding out risks:** Guarantees are typically priced at market rates plus an administrative fee, with official development assistance (ODA) subsidies applied only when, for example, recipients are unable to afford the full cost, or in high risk environments. However, significantly subsidised guarantees run the risk of not only crowding out private sector actors but also other public guarantee providers. This represents an inefficient use of limited ODA resources. Stronger coordination among EU guarantee providers, EU DFIs, and MDBs—along with the potential of the development of co-guarantee mechanisms—is needed to ensure complementary efforts and avoid over-subsidisation.

Implications: The EFSD+'s complexity can slow deployment of funds, create administrative bottlenecks between the EC and the DFIs, discourage private-sector participation, and reduce overall efficiency and transparency. Delays have been attributed to the sequencing of programming activities and complexity in concluding agreements, although an acceleration was noted in 2023 and 2024. Without a clear hierarchy or well-defined targets, strategic focus may be lost, leading to a scattershot approach rather than coherent, high-impact interventions.

Options:

i. **Umbrella guarantee framework:** A single umbrella guarantee framework could help unify and standardise agreements with implementing partners. Instead of negotiating individual guarantees for each partner or programme, this framework would provide a common structure under which sub-agreements could be made for specialised sectors, for example green energy, financing for small and medium enterprises (SMEs), and digital infrastructure. This would
    a. reduce negotiation times by eliminating repetitive legal and administrative hurdles;
    b. enhance predictability for partners, allowing them to plan for investment opportunities with more certainty; and
    c. improve efficiency in guarantee deployment by creating a familiar structure that all partners can navigate more easily.

A model that could be used as an example is the EDFI Management Company (EDFI MC) structure highlighted in Section 4. EDFI MC offers sector-specific umbrella guarantees allowing EDFI members to apply for guarantees without the need for pillar assessment under the EFSD+. This has reduced the administrative burden on the DFI side, particularly for smaller DFIs. However, the structure also introduces costs involved in operating the EDFI MC structure.

ii. **Bundled financing approach:** Instead of issuing numerous small-scale contracts for individual projects with DFIs or thematic areas, the EFSD+ could consolidate such projects into fewer, larger envelopes that implementing partners manage. This approach would

a. simplify administration by reducing the number of separate contracts that require oversight, thereby easing coordination burdens for the EC; and

b. provide long-term capital stability to implementing partners, giving them greater flexibility to manage funds over time.

iii. **Enhanced collaboration and coordination:** Addressing competition and "over-subsidisation" in the guarantee market requires better coordination among European MDBs, DFIs, and the EFSD+ to ensure complementarity rather than creating inefficiencies. Existing donor groups at the national, EU, or EDFI level can play a key role in fostering alignment beyond bilateral coordination by increasing transparency, mapping existing guarantee schemes, and encouraging co-guarantees where relevant. Strengthening coordination within these existing structures could help mitigate distortions and improve the overall effectiveness of guarantee instruments and ensure appropriate use of ODA resources. Sida, for example, has issued co-guarantees with Proparco, DFC, British International Investment (BII), IFU, Norad and others.

iv. **State-backed guarantee instrument option:** The EFSD+ could consider moving towards a *state-backed guarantee instrument* similar to the Sida and IFU models. Since the EU has progressively increased its borrowing programme following the COVID-19 pandemic, regularly issuing bonds with a AAA credit rating, the EFSD+ could explore the move to an EU balance sheet–backed instrument to tackle the timing and budgeting challenge and to ensure a more efficient use of capital (see Box 1).

BOX 1. State-backed guarantee instrument for the EFSD+

A state-backed guarantee model for the EFSD+ would leverage the European Union's strong credit rating and balance sheet to provide guarantees with greater capital efficiency and financial stability. Similar to models used by Sida and IFU, this approach would allow the EFSD+ to expand its guarantee capacity without being constrained by fixed multi-year budget cycles. The proposal would rely first on a fee-based reserve which can be subsidised by ODA- to absorb any losses. Only if losses exceed this reserve, an issuance of an EU bond would be required as a backstop. This reduces reliance on upfront provisioning and enhances the catalytic effect of EFSD+ interventions.

Key mechanisms

- **EU balance sheet utilisation:** Instead of provisioning guarantees from a fixed budget allocation, the EU would provide guarantees backed by its own balance sheet. This could be done through:
  - An explicit EU guarantee framework supported by its AAA credit rating.
  - The issuance of EU-backed bonds when the fee-based reserves are breached to provide liquidity for long-term guarantee operations.
- **Longer-term financial and increased commitments:**
  - Unlike the current seven-year MFF cycle, a state-backed guarantee instrument would provide more flexibility for long-term projects.
  - This approach would be particularly beneficial for large-scale infrastructure projects under the Global Gateway and climate adaptation initiatives, which require long-term commitments beyond a single budget cycle.
  - Additionally, by removing the constraint of a fixed provisioning budget, the EU could potentially issue a greater volume of guarantees, provided that pricing reflects appropriate risk levels and ensures long term sustainability.

Expected benefits

- **Increased efficiency:** A shift to state-backed guarantees would optimise the use of EU capital, reducing the need for provisioning while still maintaining financial stability.
- **Scalability:** By leveraging the EU balance sheet, the EFSD+ could significantly expand its guarantee capacity without being limited by fixed budget cycles.
- **Long-term sustainability:** Moving away from MFF-budget-dependent provisioning would allow EFSD+ to support long-term strategic projects in emerging and developing markets.
- **Alignment with global gateway investments:** The state-backed guarantee model would align with the long-term commitment of Global Gateway investments, which are designed to provide sustainable financing without being dependent on short-term budget cycles.

Implementation considerations

- **Political feasibility:** While the issuance of an EU bond would only serve as a last-resort backstop in extreme scenarios, moving to a state-backed guarantee structure has been regarded by interviewees as politically challenging.
- **Legal and regulatory adjustments:** A state-backed guarantee model might require adjustments to existing EU financial regulations and governance structures.
- **Risk management framework:** A robust framework for assessing and managing risks associated with state-backed guarantees would be necessary to maintain financial integrity and avoid excessive liabilities.
- **Stakeholder coordination:** Close collaboration among the EU, DFIs, MDBs, and private-sector partners would be essential to ensure that the new model complements existing financing instruments without crowding out other guarantee providers.

6.2 Impact and effectiveness—data gaps, limited assessment of additionality, and private-sector mobilisation

Transparency and additionality: By law, the EFSD+'s mandate is to deliver projects that would not have occurred without EU support, ensuring additionality over existing market solutions. Nevertheless, it remains opaque whether EFSD+ financing is catalysing new investments or displacing existing ones. The few evaluations of the EFSD+, including one from the European Court of Auditors, highlight that there is insufficient evidence regarding how EFSD+ interventions differ from business-as-usual investments and how much impact they achieve.[12] Given that the EFSD+ operates with official development assistance funds, a certain level of risk-taking is an integral part of its development mandate. Unlike purely commercial financial institutions, the EFSD+ is designed to finance projects that private capital would typically avoid owing to high perceived risks.

The EFSD+'s conditions, including stringent EU rules on project eligibility, complex due diligence, and the long timelines involved in project preparation and EC approval, have reportedly deterred private-sector engagement and private capital mobilisation.

12 Opinion 03/2024 accompanying the Commission evaluation of the External Action Guarantee [COM (2024) 208] (European Court of Auditors), Report from the European Commission on the evaluation of the European Union's External Financing Instruments for the 2014–2020 and 2021–2027 Multiannual Financial Frameworks.

Implications: The EFSD+ is at an early stage, and information on actual outcomes and operational performance (e.g., signing rates, disbursements, quality of pipelines) is scarce. Baseline data are missing or incomplete,[13] and the monitoring frameworks lack robust, standardised indicators, instead using a broad array of indicators. Without reliable data, assessing progress towards overarching EU policy goals is challenging. Unclear assessment of the EFSD+'s additionality reduces private-sector participation or even results in crowding-out, lowers leverage, and diminishes the EFSD+'s overall catalytic effect.

Options:

i. **Additionality and impact:** Leveraging better information sharing between DFIs and guarantee programmes will facilitate identifying when transactions are additional. While standardised result and monitoring frameworks exist, they are not consistently aligned across DFIs and guarantee programmes. Greater harmonisation of these frameworks would improve comparability and would ensure more effective implementation, particularly around sector-specific additionality indicators (for example financial leverage, technology transfer, improvements in regulatory frameworks). This could also involve participating in associations, such as the Berne Union, for best practice sharing and learning.

ii. **Data transparency and reporting:** Publishing the EFSD+ current project- and programme-level data on public websites, including disbursements, finalised deals, and ex post evaluations, would provide greater visibility of how EFSD+ funds are allocated and whether they meet their intended objectives. Mandatory disclosure obligations for implementing partners could be introduced to ensure consistent and timely reporting. However, this should be balanced against the administrative burden on partners to ensure that reporting requirements are proportionate and do not hinder implementation. Increased transparency would not only improve accountability but also boost investor confidence, potentially attracting greater participation by demonstrating clear financial and development impacts.

iii. **Private-sector engagement:** Creating a special niche oriented towards private-sector mobilisation by bringing in financial institutions directly regulated by the European Central Bank would diversify the overall portfolio while explicitly leveraging more private-sector capital. A more structured approach to private-sector engagement would help unlock additional capital, leveraging private investments alongside public funds to maximise impact.

13 Analysis of the EIB's full portfolio: The All Projects—finance and global impact worldwide dataset shows only EUR 5.5 billion in guarantees while the provisional 2025 MFF budget shows EUR 7.1 billion signed.

6.3 Financial efficiency and risk management—provisioning rates and risk management and allocation

Provisioning rates: Provisioning rates (9 percent, 50 percent, or higher) and guarantee ceilings set a given risk tolerance. As described in Section 4.1, analysis based on publicly available information of the EIB's portfolio and interviews indicates that these might not fully reflect evolving geopolitical contexts, fragile country conditions, or differentiation between sovereign and private-sector operations. Ex ante provisioning and provisioning of equity guarantees at 100 percent may reduce the efficiency of the EFSD+'s capital utilisation.

Local currency lending: Strengthening local capital markets requires greater availability of local currency–denominated financing instruments. Many developing countries avoid issuing hard-currency instruments, particularly across debt instruments such as bonds, because of the substantial foreign exchange (FX) risks involved, which can impede broader market development. The EC offers local currency financing under the EFSD+, but the currency risk often falls on implementing partners. Pass-through of the risk mitigates the EIB's exposure but can be suboptimal for the investee, who often bears the full FX risk. The EFSD+ has not managed to scale its local currency financing because options to manage this risk are currently limited and costly. The EC's need to maintain control over risks in a novel, unfunded, leveraged programme may limit its appetite for a local currency programme.

Implications: A single headline provisioning rate may be insufficient to cover diverse portfolio risks. Low sovereign provisioning rates may discourage investments in riskier or fragile countries, as such operations could breach internal risk limits. Conversely, high provisioning rates for non-sovereign operations may tie up capital unnecessarily, reducing liquidity, limiting the funds available for new projects, and constraining the EFSD+'s ability to invest strategically and catalytically.

Without a suitable facility to mitigate FX risks, the EIB or other DFIs either absorb significant exposure themselves or impose it on local partners, potentially undermining both market stability and the socioeconomic objectives of the EFSD+. Some collateral pool is needed to mitigate the FX risk for DFIs, as it is otherwise unbounded.

Options:

i. **Enhanced data-driven provisioning:** Greater flexibility on provisioning, combined with an EFSD+ ability to learn from its own default data alongside those of similar institutions—either via access to GEMs data or through the Berne Union, as in the case of MIGA—can improve the technical adequacy of the guarantees being issued and ensure that capital is efficiently mobilised towards the EFSD+'s development objectives. By comparing these external risk data with its own historical default rates, the EFSD+ could assess whether its current provisioning levels align with broader market trends and best practices. The benchmarking could also help to identify potential inefficiencies, ensure that risk assumptions remain relevant, and provide greater clarity on whether capital allocation is in line with actual risk exposure. Past transaction data, for example, from GEMs or the Berne Union, would be specifically relevant for the provisioning for equity guarantees, which currently stands at 100 percent.

ii. **Use of reinsurance:** Reinsurance contracts can help expand capacity while preserving internal capital. However, they require ongoing monitoring of counterparties to ensure stability. The EFSD+ could consider adopting reinsurance strategies to increase outreach while maintaining financial sustainability similar to existing practice of MIGA.

iii. **Utilising funded instruments for loss absorption:** Other funded instruments, such as a cash collateral pool, can serve as collateral to absorb losses incurred by local currency lending. Two principal options to create a collateral pool are as follows:

    a. **Reinvestment of reflows:** The Cotonou model demonstrated that returns (or "reflows") from successful guarantee operations can be recycled into the funding mechanism. Guarantee fees and repayments from previous or ongoing EFSD+ operations or other existing EU instruments can be earmarked and reinvested to gradually build up a collateral pool, creating a self-sustaining funding source.

    b. **Additional budget dedication for local currency:** A collateral pool explicitly intended to support local currency lending could be funded by allocation as part of the next MFF budget. It is important to note that this would require the introduction of a significant operational setup. The feasibility of this options would have to be further explored to establish benefits, drawbacks, and costs involved.

7. Annex: Overview and analysis of EFSD+

7.1 Overview of EFSD+ success criteria

Regulation 2021/947 of the European Parliament and of the Council, which establishes the EFSD+, lays out four overall objectives:

1. To support and foster dialogue and cooperation with third countries and regions in the Neighbourhood, in sub-Saharan Africa, in Asia and the Pacific, and in the Americas and the Caribbean
2. To develop special strengthened partnerships and enhanced political cooperation with the European Neighbourhood Policy countries, founded on cooperation, peace and stability, and a shared commitment to the universal values of democracy, the rule of law, and respect for human rights, and aiming towards deep and sustainable democracy and progressive socioeconomic integration as well as people-to-people contacts
3. At global level:
    - To protect, promote, and advance democracy, the rule of law—including accountability mechanisms—and human rights—including gender equality, protection of human rights defenders, including in the most difficult circumstances and urgent situations
    - To support civil society organisations
    - To further stability and peace and prevent conflict, thereby contributing to the protection of civilians
    - To address other global challenges such as climate change, the protection of biodiversity and the environment, and migration and mobility
4. To respond rapidly to:
    - Situations of crisis, instability, and conflict, including those that may result from migratory flows, forced displacement, and hybrid threats
    - Resilience challenges, including natural and man-made disasters, and linking of humanitarian aid and development action
    - Union foreign policy needs and priorities

Under the same legislation, the list of MEL indicators for the EFSD+ spans a very broad range of areas, from governance and socioeconomic development to environmental sustainability and peacebuilding. They include measures such as the following:

- **Governance and rule of law:** for example, the rule of law score for union-assisted countries
- **Social and economic wellbeing:** for example, poverty rates by demographic groups, numbers reached by nutrition and health programmes (such as immunisation), and educational enrolment figures

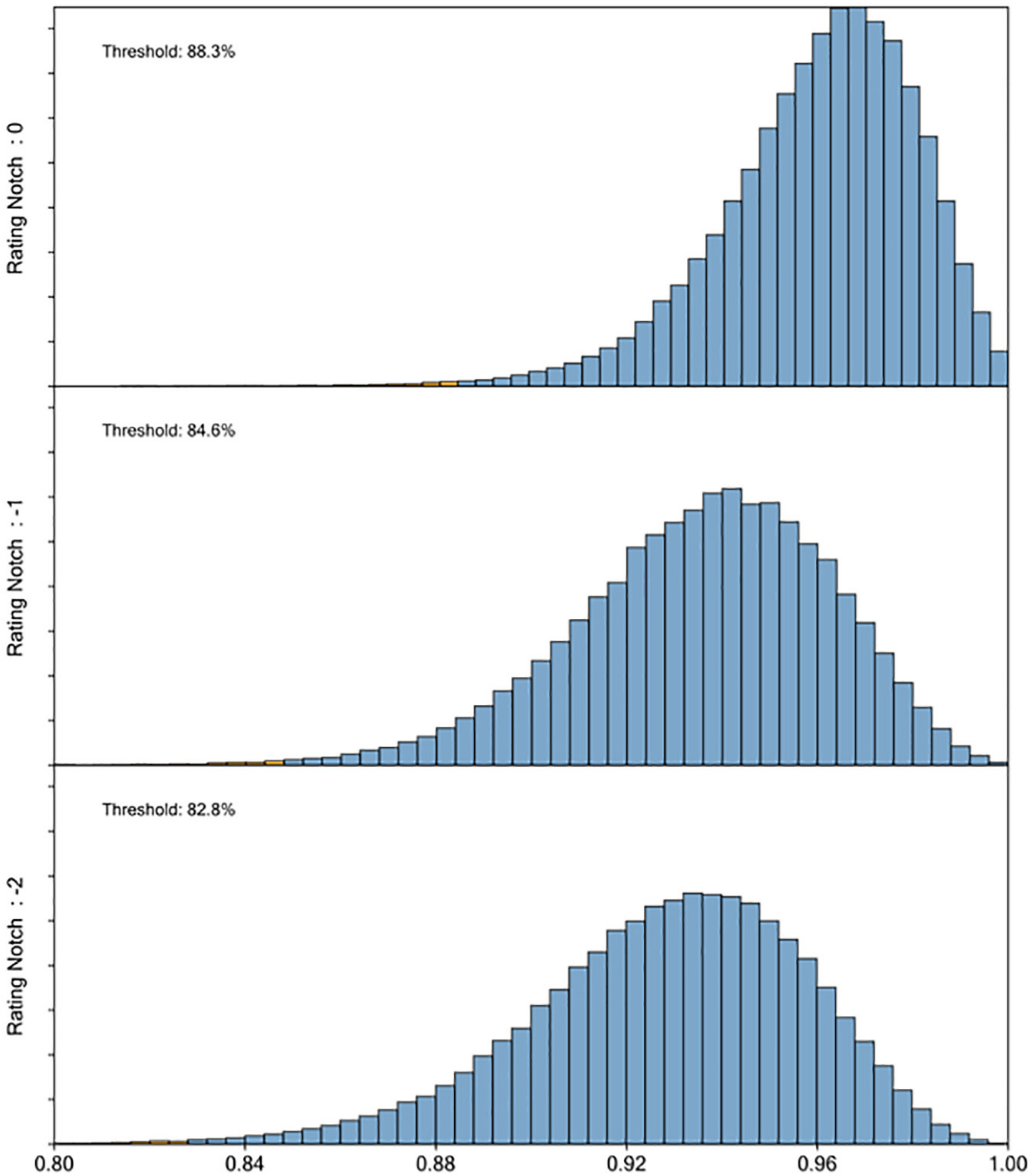
- **Agriculture and economic development:** for example, the number of smallholders supported and SMEs adopting sustainable practices, as well as investment leverage and multiplier effects
- **Environmental and climate impact:** for example, greenhouse gas emissions avoided, areas of ecosystems protected, and renewable energy capacity installed
- **Peace, human rights, and reforms:** for example, support for post-conflict peacebuilding, initiatives promoting political, economic, and social reforms, and assistance to victims of human rights violations
- **Additional areas:** for example, improved water and sanitation access, support for migrants and refugees, and processes influencing partner country practices in trade and policy

7.2 EFSD+ open architecture project list[14]

Project	Sector	Implementing Partner	Description
HDX	Health	EIB and Bill and Melinda Gates Foundation	EUR 750 million guarantee with the EIB and Bill and Melinda Gates Foundation for health system strengthening
Access to Finance	Multisectoral	EIB	Targets SMEs, particularly start-ups, and women-led businesses to address the root causes of migration
AgreenFi	Climate and Energy	Proparco	AgreenFi aims to mitigate the high risks in lending to micro-, small and medium-sized enterprises (MSMEs) in SSA and the EU neighbourhood
Africa Connected	Digital	Finnfund	Finnfund's initiative to mobilise digital infrastructure and platforms in sub-Saharan Africa
ALCBF	Multisectoral	KfW	KfW's programme to provide African businesses access to long-term financing in local currency
Aya Scalable Solutions	Climate and Energy	FMO	Facilitates investments in climate adaptation and mitigation specifically for agriculture, forestry, and ecological systems
CITYRIZ	Multisectoral	AFD	AFD programme for local governments in sub-Saharan Africa to invest in sustainable public infrastructures and urban planning
EDFI Carbon Sinks	Climate and Energy	EDFI MC	Supports investors to scale up equity investments in forestry and regenerative agribusiness companies in carbon sink projects across the globe
EU Market Creation Facility	Multisectoral	KfW	Supports The Currency Exchange Fund in its effort to shield international lenders and their local borrowers in emerging and frontier markets from exchange rate volatility
European Health Platform	Health	EIB	The EHP aims to reduce financing constraints for accessing vaccines and health diagnostic services
FISEA Plus	Multisectoral	AFD	Agence Française de Développement programme to accelerate private equity fundraising in sub-Saharan Africa and the Southern Neighbourhood
FMO Ventures	Multisectoral	FMO	Venture funding for digital businesses and MSMEs
InclusiFi	Multisectoral	CDP	Aims to improve access for local entrepreneurs in sub-Saharan and Northern Africa
MSME Platform	Multisectoral	EDFI MC	EDFI Management Company programme for MSME investment
NASIRA	Multisectoral	FMO	FMO programme to lend to entrepreneurs
SDG Fund II	Multisectoral	IFU	IFU fund to syndicate MDB loans
Small Loan Guarantee Programme	Multisectoral	IFC	IFC programme providing risk-sharing facilities along with advisory services to improve the availability of loans, guarantees, and other financing products relevant for small businesses

14 List of projects as of 1st of April 2025 available on EFSD+ website.

7.3 Simulation of the EIB's EFSD+ portfolio



7.4 State-backed versus self-sustaining guarantee programmes

Aspect	State-Backed Guarantee Programmes (e.g., IFU, Sida, DFC)	Self-Sustaining Guarantee Programmes (e.g., MIGA, EFSD+)
Mandate and funding	Underwritten by national governments, benefiting from AAA sovereign ratings	Balance sheet constrained; must be self-sustaining
Risk transfer & capital requirements	Risk transferred to the state's debt management structures	Must provision accurately, maintain capital adequacy, and price risk commercially
Pricing approach	Based on reference probability of default and loss given default, often with budgetary backstops	Market-based pricing with actuarial benchmarks to ensure long-term sustainability
Project selection & risk appetite	More flexibility to underwrite high-risk projects due to fiscal backing	Risk tolerance constrained by internal capital adequacy models
Governance & operational structure	Risk calculation outsourced to national debt management office. Propensity for intergovernmental collaboration (e.g., IFU & Sida co-guaranteeing)	Uses in-house sovereign risk teams, detailed macroeconomic analysis, and portfolio-level correlations
Reinsurance usage	Limited reliance on private reinsurance; risk primarily absorbed by state mechanisms	Maintains quota-share arrangements with private reinsurers to expand capacity and manage exposure
Provisioning & loss absorption	Losses covered by state fiscal capacity or aid transfers	Losses must be absorbed within available capital reserves, requiring prudent provisioning
Relevance to EFSD+ & EU initiatives	Provides lessons on leveraging fiscal backing for higher-risk projects. Theoretically, pending further review on EU regulations, the EU could move towards this system, since the EU issues bonds in the market and holds a AAA credit rating	Offers insights into risk-based pricing, reinsurance mechanisms, and capital efficiency
Key divergence	Tolerates short-term volatility and potential losses due to state backing	Prioritises financial sustainability and strict capital provisioning to mitigate risk

7.5 Full outline of MIGA's guarantee pricing process

MIGA's Country and Economic Capital Risk Assessment

1. **Introduction: MIGA and Its Mandate**
   The Multilateral Investment Guarantee Agency (MIGA) is mandated by its convention to operate in a financially sustainable manner. As part of the World Bank Group, MIGA offers political risk insurance and credit enhancement to investors and lenders, thereby promoting foreign direct investment in developing countries. To fulfil its mandate, MIGA has established a comprehensive financial risk management framework that ensures it recovers all administrative and risk-related costs in the pricing of its guarantees.
2. **MIGA's Financial Risk Management Framework**
   MIGA's financial sustainability is underpinned by a bespoke economic capital model that is unique to its political risk products and extended to its credit and non-honouring guarantees. This model
   - focuses on both the likelihood of claims (probability) and the potential severity of those claims (loss given default), and

(Continued)

MIGA's Country and Economic Capital Risk Assessment

- operates at two levels:
    - **Individual guarantee basis:** Captures expected and unexpected losses for each guarantee
    - **Portfolio level:** Calculates the overall capital requirement for the entire book of business

MIGA's total gross exposure stands at approximately US$30 billion, and after reinsurance, its net exposure is US$10 billion. MIGA must hold sufficient capital against these exposures to maintain appropriate capital adequacy. Although these exposures are reported as gross and net amounts, they do not appear on the balance sheet in the form of reserves because they are off-balance-sheet exposures.

MIGA's pricing process ensures that premiums charged on guarantees reflect both expected and unexpected losses. This approach

- recovers administrative costs and risk costs;
- aligns with the agency's economic capital usage; and
- reflects the additional risk introduced by each new guarantee, particularly where there are concentration effects in the portfolio.

3. **The Underwriting Process**
Every project at MIGA is handled by a multidisciplinary team led by a **task team leader** who coordinates the overall project package for submission to MIGA's board. The key specialists include the following:

    1. **Country risk officer:** Assesses the country's macroeconomic conditions and evaluates sovereign or subsovereign risks, including credit ratings, which may be adjusted based on MIGA's own judgement
    2. **Legal counsel:** Identifies legal risks and considerations associated with the project
    3. **Environmental and social specialist:** Ensures compliance with MIGA's performance standards on environmental and social issues
    4. **Climate specialist:** Reviews potential climate-related risks and alignment with climate objectives
    5. **Integrity specialist:** Conducts know-your-customer checks and examines tax implications and ultimate beneficial ownership structures
    6. **Finance specialist:** When applicable, evaluates the credit risk of state-owned enterprises by analysing financial statements and conducting stakeholder interviews
    7. **Reinsurance specialist:** Structures reinsurance arrangements and liaises with private insurers to syndicate MIGA's guarantees

    Collectively, these experts produce the underwriting paper, which includes the project's risk profile, proposed coverage terms, and recommended pricing. To avoid bias, MIGA separates the country risk assessment from the project- and portfolio-level economic capital assessment. This procedure ensures that the country rating is not unduly influenced by any specific project guarantee or its provisioning requirements.

4. **MIGA's Country Risk Assessment**
MIGA considers political, sovereign, and subsovereign risks when evaluating a potential host country. Both the sovereign credit rating methodologies and a tailored political risk assessment guide this approach:

    - **Sovereign credit rating:** MIGA uses a 21-notch rating scale closely aligned with the World Bank Group and major credit rating agencies (CRAs). The exception is the political component, which is incorporated differently than in standard CRA models. MIGA also assigns ratings to countries not covered by private CRAs, leveraging its internal risk assessment frameworks.
    - **Political risk assessment:** MIGA maintains distinct political risk ratings for expropriation, transfer and convertibility restrictions, and war/civil disturbance. Breach of contract risk is generally treated as an extension of expropriation risk. Political risk ratings are refreshed quarterly to remain current with evolving conditions.

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MIGA's Country and Economic Capital Risk Assessment

5. **MIGA's Country Risk Assessment**
   For each project, MIGA begins with the relevant country rating and then applies upgrades or downgrades based on project-specific factors, such as regional stability within the host country and additional risk mitigants (e.g., commercial protections, local partnerships).

   This project-specific rating is converted into a *probability of default* (PD) by analysing historical proxy events. For transfer and inconvertibility risks, MIGA reviews historical currency crises over a 40- or 50-year horizon to identify conditions that triggered such events. Given MIGA's limited direct loss experience (only 11 claims paid out since the 1980s), external data from sources such as OPIC, the US International Development Finance Corporation, the Berne Union, and export credit agencies inform the PD estimations. On the credit side, MIGA derives PDs using sovereign default and transition data from rating agencies (S&P, Fitch, and Moody's). While PDs are not significantly adjusted, MIGA factors in a "World Bank effect" in its recovery rates, recognising the influence of the World Bank Group's presence in negotiations and workout scenarios.

6. **MIGA's Economic Capital Calculation**
   MIGA defines its economic capital for individual projects as the three-year unexpected loss at the 99.97th percentile. Currently, the total economic capital is approximately US$750 million. The main components include the following:

   - **Retained exposure:** The majority of MIGA's capital requirement derives from its net exposure (US$10 billion).
   - **Counterparty exposure:** Roughly 20 percent of the economic capital requirement stems from reinsurer counterparty risk. MIGA typically works with a panel of 45 reinsurers rated around AA-.

   Beyond individual guarantees, MIGA's model also calculates a portfolio-level reserve. This approach incorporates the following:

   - Tail-loss measure: MIGA uses the 95th percentile tail loss (excluding the mean), serving as a proxy for portfolio-level tail risk.
   - Coverage of lifetime exposures: The model encompasses the full duration of MIGA's approximately 350 outstanding contracts. Political risks often involve up to four potential claim triggers per contract (e.g., expropriation, transfer restriction), whereas credit risks typically involve only one obligor type (sovereign, subsovereign, or state owned).
   - Recovery and loss assumptions: The model contemplates both full and partial loss scenarios modelled along a beta function.
   - **Correlation factors:** Concentration risks are explicitly captured through correlations between cover types, countries, and regions. Consequently, a heavily concentrated portfolio may require more incremental capital per additional dollar of guarantee.

7. **Reinsurance**
   MIGA employs quota-share reinsurance, which entails reinsurers taking a vertical slice of each contract under the same terms and conditions that MIGA provides to clients. The reinsurers sign a contract and commit to follow MIGA's fortunes. This also means MIGA needs to regularly reassess the reinsurers' credit risk. As policy guardrails, up to 90 percent of the risk can be shared with a limit of 70 percent of the overall book because MIGA needs some "skin in the game" to align incentives and prevent it from being an entirely pass-through entity.

   MIGA employs two principal types of reinsurance:

   - **Automatic (treaty) reinsurance:** Used for certain countries and project sizes; coverage attaches automatically based on predefined rules. A panel of six reinsurers typically participates, each taking a fraction of the risk within specified attachment and detachment points.
   - **Ad hoc reinsurance:** Used for more specialised or large-scale projects; terms are negotiated on a case-by-case basis, often involving syndication among multiple private reinsurers.

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