Memo to the commissioners responsible for international partnerships and reform of the multilateral development banks

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Europe'), blending of aid with private f nance, less paternalism, better branding and an emphasis of f nancing physical infrastructure (the Global Gateway). These changes are welcome but bring risks: inability to deliver on promised f nancing volumes, potential conf ict with the Sustainable De velopment Goals, and tensions with emerging and developing economies, which accuse the EU of double standards.

To address these risks, you should recommit to the SDGs as the primary objective of the Global Gateway, embed infrastructure investment in a com

an institutional mechanism to coordinate Team Europe, seek member state

opment banks (MDBs), and use this to leverage MDB reform and operations through country climate platforms.

Maximise the impact of the Global Gateway

Defuse tensions with emerging and developing partners

Improve coordination internally and externally

- A new agship initiative, the Global Gateway, was rolled out in December 2021. is aims to mobilise funding of up to €300 billion by 2027 for – mainly infrastructure – investments in partner countries, combining funding from the EU budget, EU countries, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the private sector.

Most of these changes have been years in the making but one is new and radical: the way in which the European Commission seeks to rationalise EU international partnerships. While development aid was previously justi ed through a mix of moral obligation and enlightened self-interest (such as promoting growth and political stability in trading partners), the Commission has framed the main objective of the EU's international partnerships, and speci cally of the Global Gateway, as being to promote the direct self-interest of the EU at a time of geopolitical rivalry. e NDICI-GE was " " in the words of one of your predecessors [1]

How much these shifts matter in practice is not yet clear (Perez , 2023). EU blending facilities have supported about 100 projects since 2021, but most are small, and so is the EU nancing contribution (about €1.3 billion). A few high-pro le infrastructure projects have been launched under the Global Gateway brand, including the Lobito economic corridor and the Medusa beroptic cable. But projects branded as part of the Global Gateway cover many other sectors, including health and education. Net disbursements to energy projects have increased but are no higher than prior to the pandemic. e share of EU-level disbursements to health and education (about 14.6 percent of total) remains almost tcent oT⊁, and⊀d as p)1.1 (arhn(or)852d s)3 (up-le)-1 (v)3ements t since 2019. Most of these either place additional demands on EU international partnerships or make it harder to meet those demands:

- Most EMDEs have suffered significant setbacks in reaching the Sustainable Development Goals (SDGs). Some of these setbacks will be long-lasting, in part because food prices are expected to remain higher over the medium term than pre-pandemic levels. Improvements in SDG indicators are happening at a frustratingly slow pace. Most 2030 targets will likely be missed.
- For related reasons, fiscal space has narrowed in most EMDEs. Although a generalised debt crisis has been avoided so far, many low income and some emerging market economies are up against their borrowing limits; some have defaulted. Orderly debt restructuring has become more difficult, because it requires China – by far the largest creditor, but with comparatively little influence over the International Monetary Fund and the World Bank – to agree with Western creditors.
- The world has become even more multipolar and fragmented than was already expected in 2019. Tensions between China and the US and other democracies have continued to rise. Growth prospects have shifted, with the IMF expecting lower medium-term growth in China than it did before the pandemic. Several other developing economies are growing quickly and becoming more assertive.
- Global carbon emissions continue to rise, and biodiversity is declining at alarming rates. Nationally determined contributions to mitigate emissions pledged by EMDEs are not nearly ambitious enough to keep global temperature rises below 2 degrees above pre-industrial levels, even if advanced countries

A further complication is that European influence in the development finance debate – and more broadly its soft power – is increasingly blunted by an erosion of trust, fuelled by the hoarding of COVID-19 vaccines, perceived double-standards on Ukraine and Gaza, and the perception that the EU, far from building equal partnerships, likes to impose its norms and standards on the developing world. The imbalance between large EU voting blocks in the international financial institutions and the EU's declining share of global GDP has fuelled questions about the fairness and legitimacy of the global financial architecture and is a factor behind the creation of parallel financing structures, ranging from international reserve buffers and swap arrangements to the creation of the BRICS bank. Further structures of this type could weaken Europe's influence on development finance in core areas of interest.

Most of your predecessors' strategic decisions go in the right direction. But they also create new challenges relating to implementation and unintended consequences. There are also rising challenges relating to emerging EU policies, reduced fiscal space and the more difficult geopolitical environment.

The Global Gateway

The Global Gateway's focus on physical investment, Team Europe and avoiding paternalism all make sense. There is also nothing wrong with openness about what the EU hopes to get out of its partnerships. That said, the new strategy carries risks.

One risk is that the new framing of international partnerships will exacerbate the perception of EU hypocrisy, further weakening EU credibility in the global south. The Commission has declared that EU aid must henceforth serve EU economic and geopolitical interests but it also continues to insist that its partnerships serve the to the preferences of ruling elites, perhaps to the detriment of democratic values, transparency and some of the SDGs.

A related risk is that the emphasis on physical infrastructure could be taken too far. ere is indeed a large physical investment

With fiscal space slim or non-existent in many partner countries and the high cost of capital as a barrier to large-scale private finance, official aid flows will continue to be crucial, especially for low-income countries. But fiscal space has also narrowed significantly in the EU. Discussions on the size and structure of the next MFF (2028-2034) will begin immediately after you take office. There will be pressure on the EU's aid budget, even while you are being asked to pursue objectives that go beyond traditional aid: accelerating the energy transition, addressing conflict and fragility, funding projects essential to EU economic security and assisting with climate adaptation.

To make limited budgets go further, your first objective should be to scale up blended finance

To make limited budgets go further, your first objective should be to scale up blended finance, particularly in renewable energy, digital infrastructure and transport infrastructure. Your predecessors worked on the foundations, but the results remain unsatisfactory. The Global Gateway is struggling to leverage the private sector investments that would scale it up to the €300 billion target[2]. And north-south private climate finance remains ridiculously low in both absolute and relative terms: just $22 billion of the $116 billion reported by the OECD for 2022 (and less than $15 billion per year during 2017-2021).

The second – related – objective is effective multilateral development bank (MDB) reform. Successive G20 and United Nations panels have argued that MDB balance sheets could be used more efficiently, lending volumes could triple and mandates could shift more decisively towards global public goods. MDBs could do more to mobilise private capital, recycle Special Drawing Rights and support coordination of the climate transition through country platforms. The G20 has been preparing a roadmap for MDB reform. With EU countries holding almost 23 percent of shares in the World Bank, the EU should be well-positioned to influence reforms. But European positions on MDB strategy are not always coordinated.

To make MDB reform happen, you will need to align Team

Funding of climate mitigation should be separate from the funding of other development goals

no sense to create a trade-off between emissions mitigation and other SDGs by forcing both into the financing envelope of the same budget line. Funding of climate mitigation should be separate from the funding of other development goals, even if both are delivered through the Global Gateway.

Use international partnerships and EU external action to offset the economic costs of EU climate mitigation and green industrial policies

Measures such as CBAM and the Deforestation Regulation are necessary to achieve the green transition. But they require flanking measures to help development partners make the transition. A large share of CBAM revenues should flow back to partner countries to help them reduce the carbon content of their exports and to protect their forests while still meeting their industrialisation and development goals. Some of this money should support climate adaptation. The EU should monitor whether its green industrial policies benefit EMDEs by creating supply chains that include rather than exclude them.

Seek agreement on a proportionate reduction in member state voting shares and consolidation of board seats in relevant MDBs

Anachronistically large EU voting blocks are an obstacle to MDB reform and undermine trust. The EU needs to accept a reduction in its shares, to the benefit of EMDEs, as part of a broader package to modernise and refocus MDBs. Freed-up voting shares and board seats should be offered to recipient countries based on long-available formulas. The floor on collective EU shareholdings in the World Bank Group might be set at the level of the United States, while conditions and appropriate solutions will differ at the regional development banks.

Create institutional mechanisms to ensure alignment within the Commission and with Team Europe

Mechanisms to ensure consistency at various levels, inside EU institutions and with EU countries, are a logical next step for the Team Europe approach. Given dispersed responsibilities within the Commission, there will be a continuous need for internal alignment. A separate mechanism to achieve Team Europe unified European Climate and Development Bank[3]. If effective coordination between the EBRD, the EIB, other EU instruments and MDBs fails, it will need to be revisited.

Expand and upgrade multi-donor partnerships, including Just Energy Transition Partnerships

Just Energy Transition Partnerships should be developed to scale and expanded to additional countries

Effective emissions mitigation and protection of biodiversity in EMDEs requires coordination not just within Team Europe, with EMDE partners and with reformed and strengthened MDBs, but also across the G7 and other international partners who share responsibility, and should share the financial burden. Apart from the expansion of international emissions trading – handled by your climate colleague – the main means to do so is the invigoration and expansion of mitigation finance through country platforms. These exist in embryonic form: Just Energy Transition Partnerships (JETPs) with South Africa, Indonesia, Vietnam and Senegal. But they are insufficient. The financing promised is far too low, and not explicitly linked to specific policy actions. JETPs should be developed to scale and expanded to additional countries.

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European Commission (2021) 'The Global Gateway', JOIN(2021) 30 final

Perez, A., N. Albhakit and B. Ruiz (2023), study requested by the DEVE Committee of the European Parliament

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3. https://data.consilium.europa.eu/doc/document/ST-9462-2021-REV-1/en/pdf.