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Blended finance and the illusion of development

Lessons from the EFSD+ for the next EU budget

February 2026

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Glossary

Blended finance: Combination of public concessional finance (finance with more generous terms than the market has to offer, usually reported as official development assistance) with private or public resources.

Blending operations: Combination of EU funding with other financial resources, such as loans, equity, or guarantees from development finance institutions. The EU contribution can take the form of non-reimbursable support, like grants or technical assistance, or reimbursable instruments, including loans, risk capital or guarantees.

Budgetary authority: The joint power of the European Parliament and the Council of the EU to decide on, amend and adopt the EU's annual budget.[1]

Budgetary guarantee: Written commitment backed by the EU budget under which the EU agrees to cover all or part of a third party's financial obligation if specific events occur, such as a loan default[2]. By sharing the risk with lenders, it functions as a de-risking instrument to attract private sector investment and provide financial stability.

Concessional/concessionality: Refers to loans offered on terms more favourable than market rates.

Development Finance Institutions (DFIs): Government-backed financial institutions, often development banks like DEG in Germany and Proparco in France, that finance private sector activities in countries of the Global South. Unlike development agencies, DFIs are set up to support private sector activities with finance at market or near-market terms and to operate on a self-sustained basis after a state-funded kick-start. Despite their developmental mandate, most DFIs operate on a cost-covering basis.

EFSD+: EU's strategy of using guarantees, grants and other financial tools to support sustainable development and mobilise public and private finance in partner countries, especially for higher risk projects. Since 2021, with the launch of the Global Gateway strategy aiming to mobilise up to €300 billion for sectors such as digital infrastructure, energy, transport, health and education, the EFSD+ has become one of its main financing instruments.

Export Credit Agencies (ECAs): Governmental or private institutions that provide loans, guarantees and insurance backed by public budgets to corporations globally, and finance export of goods and services originating in the country providing the finance.[3]

External Action Guarantee (EAG): With the EAG, the EU can guarantee financing and investment operations in countries of the Global South. Its purpose is to reduce risks for investors. The largest part of the EAG is used under the EFSD+, which supports investments aimed at sustainable development in these countries.

Geographic envelope: Under the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe regulation, the geographic envelope is the part of the EU's external cooperation budget (€60.39 billion) allocated to cooperation with specific third countries and regions.

Loans: Money borrowed from a bank, financial institution, lender or person, with an agreement to pay it back, usually with interest.

Official Development Assistance (ODA): Government aid that promotes and specifically targets the economic development and welfare of Global South countries. ODA has been the main source of financing for development aid since it was adopted by the OECD's Development Assistance Committee (DAC) as the "gold standard" of foreign aid in 1969.

Tied aid: Aid that is (in law or in fact) tied to the procurement of goods and/or services from the donor country and/or to a restricted number of countries; it includes loans, grants, or associated financing packages with a concessionality level greater than zero percent.

Acronyms

DFI	Development Finance Institutions
DIA	Distributional Impact Assessments
EAG	External Action Guarantee
EC	European Commission
ECAs	Export Credit Agencies
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EU	European Union
FI	Financial Institution
GEI	Global Europe Instrument
HIPC	Heavily Indebted Poor Countries
INTPA	(Directorate-General for) International Partnerships
LDCs	Least Developed Countries
MFF	Multiannual Financial Framework
MSMEs	Micro, mall and medium-sized enterprises
NDICI	Neighbourhood, Development and International Cooperation Instrument
NEAR	(Directorate-General for) Neighbourhood and Enlargement Negotiations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ReMF	Results Measurement Framework
UMICs	Upper Middle-Income Countries

Executive Summary

Proposals for the Global Europe Instrument (GEI) - the European Union (EU)'s vehicle for external action under its Multiannual Financial Framework (MFF) 2028-2034 - carry grave implications for international development.

Rather than reinforcing the mandate to reduce poverty and tackle inequalities, the proposed framework risks accelerating a shift towards investment-driven approaches and the pursuit of the EU's geopolitical and economic self-interest.

Over recent decades, the EU has gradually shifted away from delivering Official Development Assistance (ODA, or aid) in the form of grants and budget support to partner countries in the Global South, approaches that have historically proved to deliver significant development impact. In their place, the EU has increasingly relied on financial instruments designed to attract private investments by transferring part of the risk onto public budgets, such as blended finance and budgetary guarantees.

This report examines the performance of the European Fund for Sustainable Development Plus (EFSD+) - the current budget's investment framework. Drawing lessons from the EFSD+ is critical when it comes to informing discussions about the next EU budget, and shaping the regulation of the forthcoming GEI.

The findings highlight the limited evidence that an increasing reliance on private finance actually delivers meaningful outcomes for sustainable development. The report urges EU politicians and officials to reconsider the path they are on in light of evidence about what actually works.

From the EFSD+ to the proposed Global Europe Instrument

The EFSD+ is structured as an integrated financial package that blurs distinctions between fundamentally different funding modalities each with distinct rationales and risk profiles. While blended finance and guarantees can play a role in specific, commercially viable contexts, their progressive mainstreaming within EU international cooperation comes at the expense of traditional, proven modalities.

The challenge, therefore, is not the use of these instruments, but the growing belief that they can deliver core development and climate outcomes at scale. This is a clear policy choice that risks undermining the EU's commitments to the Sustainable Development Goals (SDGs), the Paris Agreement and the development effectiveness principles.

In this report we identify five key features of the proposed GEI that warrant consideration from the European Parliament and the Council of the European Union, as the co-legislators. These are:

1. The expansion and flexibility of the development finance architecture.
2. Direct awards to commercial entities, including EU companies, without competitive procedures.
3. No ceiling on guarantee provisioning.
4. Expanded use of policy-based lending.
5. A shrinking share of ODA-reportable operations and indications of a return to tied aid practices.

Together, these features, - justified by calls for flexibility and simplification - risk eroding the EU's legitimacy as a development actor. They represent a decisive acceleration of a trend that prioritises profitable projects as a way of delivering sustainable development outcomes, despite a lack of clear evidence that they deliver on the promised impact. As the GEI continues to draw mostly on ODA, it remains bound by established development effectiveness principles, including a results-focused approach and respect for partner countries' ownership of their sustainable development strategies.

Co-legislators have the responsibility to ensure that the use of investment tools remains proportionate, transparent and aligned with the sustainable development objectives.

Policy recommendations

To ensure consistency with sustainable development objectives, as well as avoiding opportunity costs, and enhancing transparency and accountability, we are calling on co-legislators to implement the following five measures:

1. Establish a binding minimum share for grant-based modalities, safeguarding predictable funding for core sustainable development objectives and civil society.
2. Regulate the use of blending and guarantee operations, including by setting a binding ceiling on blending and guarantee operations.
3. Align the financial toolbox with core sustainable development and climate standards, including by establishing a formal framework to govern blending and guarantee operations with criteria on relevance, transparency, development and financial additionality. Limit the use of blending and guarantee operations to private sector companies that comply with the highest standards of due diligence.
4. Enforce robust transparency and reporting standards, and enhance democratic accountability.
5. Establish a Standing Rapporteur of the European Parliament on blending instruments.

Grants and budget support remain indispensable for reducing poverty and inequalities, promoting human development, climate adaptation and resilience. The use of blended finance, guarantees and loans may complement these efforts if they are used prudently, with well-defined and demonstrable contributions to EU development objectives. However, as this report illustrates, resetting the balance is essential to preserve the credibility, effectiveness and legitimacy of the EU's international cooperation agenda.

Grants and budget support remain indispensable for reducing poverty and inequalities, promoting human development, climate adaptation and resilience.

Introduction

Over the past decade, European Union (EU) international cooperation has undergone a gradual but significant transformation. While poverty eradication and human development are formally enshrined in the EU's legal framework, a growing reliance on blended finance and budgetary guarantees – designed to attract private investment and reduce investor risk – has already reshaped how development goals are implemented.

Under the current Multiannual Financial Framework (the EU's long-term budget), the mainstreaming of these instruments – most visibly through the European Fund for Sustainable Development Plus (EFSD+) – has helped to shift priorities towards profit-driven, scalable projects and greater financial leverage. This has had negative consequences for delivering core development outcomes.

The European Commission's proposal for the next EU budget for 2028–2034 has accelerated this trajectory. By consolidating grants, loans and guarantees into a single financial toolbox – the "Global Europe Instrument" – and explicitly broadening the scope of EU external action beyond international cooperation[4] as defined in the Treaties, this risks further diluting development objectives.

Notably, financial tools originally introduced to support development are now expected to deliver a much wider range of foreign policy, economic and strategic goals. Yet these instruments continue to draw on the EU's development budget and are still reported – at least in part – as Official Development Assistance (ODA – or foreign aid). As a result, they remain subject to development effectiveness principles, such as a focus on results and developing country ownership.

This creates a structural tension. Evidence from more than 15 years of EU experience shows that blended finance and guarantees operate within clear limits: they are driven by profitability and risk–return considerations and consistently underperform when applied to the most pressing and transformational development and climate needs – particularly in least developed and fragile contexts. As objectives multiply through the merging of financing modalities, there is a risk of development becoming one objective among many, rather than the guiding principle for allocation and implementation.

The challenge, therefore, is not the use of blended finance and guarantees aimed at mobilising private finance, but the growing misconception that these methods can deliver core development and climate outcomes at scale, particularly for groups at risk of marginalisation. In a context of constrained ODA budgets, rising debt vulnerabilities and escalating climate impacts, this trend carries an opportunity cost and weakens accountability for the use of public development resources.

This report aims to inform crucial discussions on the regulation of the Global Europe Instrument (external action in the EU's 2028–2034 budget). The goal is to provide development-oriented policy recommendations for the EU Member States within the Council of the EU and the European Parliament to inform their positioning.

The report examines the EFSD+ to draw lessons for the next EU budget. It argues that, if the EU is to deliver on values-driven international cooperation, core development and climate priorities will need dedicated, ringfenced funding. To achieve this, the use of blended finance and guarantees should be tied to clear evidence that they bring additional funding and actually deliver measurable development results.

This report is structured as follows. First, it introduces the process of mainstreaming blended finance and guarantees in the EU development budget, focusing on how this crystallised into the establishment of the EFSD+ for 2021–2027. Second, it analyses the implementation of the EFSD+ around four key issues: financial additionality, development impact, contribution to climate action, transparency and accountability. Third, it analyses the proposed Global Europe Instrument, outlining concerns and questions that require careful consideration. Finally, it concludes and puts forward policy recommendations for members of the Council and the European Parliament to consider during the budget negotiation process.

1. Mainstreaming blended finance and guarantees in the EU development budget

Over the past decade, the EU's development policy has progressively evolved from a framework primarily centred on poverty reduction towards one that is increasingly being shaped by strategic, geopolitical and geoeconomic considerations. While integrating multiple policy priorities may enhance institutional coherence, it also alters the balance of objectives within the EU development budget. The Global Gateway strategy, which was launched in December 2021, crystallises this evolution by explicitly aligning international cooperation, diplomacy and trade in support of a broad – and only loosely defined – economic diplomacy agenda.[5]

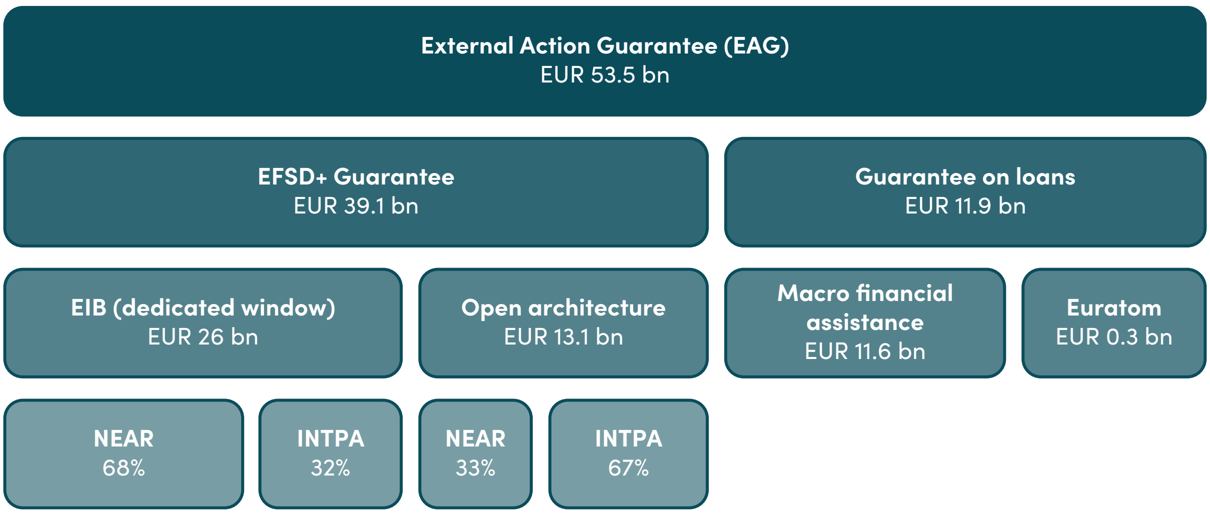
Blending and budgetary guarantees operations lie at the core of this transition. Indeed, the EFSD+ is the investment framework under the Neighbourhood, Development and International Cooperation Instrument (NDICI)–Global Europe (2021–2027). It brings together blending and budgetary guarantee operations under a single architecture backed by the External Action Guarantee (EAG). By integrating mechanisms previously governed under separate arrangements (including external lending mandate–type operations), the EFSD+ supports the mobilisation of private investment. However, it remains formally anchored in the development objectives of the NDICI–Global Europe Regulation adopted in June 2021 by the Council and the European Parliament.[6]

This mainstreaming is reflected in the structure of the EAG. With a total capacity of €53.5 billion, the EAG is divided into two components:

- the EFSD+ Guarantee, with a capacity of €39.1 billion, which supports investment operations implemented by development finance institutions, and
- the "Guarantee on loans", with a capacity of €11.9 billion, which is largely dedicated to macro-financial assistance.

The architecture illustrates how the EAG is integrated across multiple investment windows. This includes an open architecture pillar alongside dedicated windows, which together form a unified system of EU budgetary risk-sharing instruments (see Figure 1).

Figure 1: EU guarantees architecture 2021-2027



Source: Center for Global Development (2025).[7]

Figure 2: Evolution of blending and guarantee operations in support to EU external action

2017–2020	2021–2027	2028–2034
EFSD	EFSD+	Global Europe Instrument
€4.5 billion (guarantee instrument €1.5 bn, €3 bn existing investment facilities)	**up to €53.5 billion** (€39.1 bn + €13 bn open architecture)	**up to €95 billion*** budgetary guarantees

Source: Authors' own calculations from retrieved data.

*Based on Article 24(1) European Commission, Proposal for a Regulation establishing Global Europe (2025)

Importantly, the NDICI–Global Europe Regulation introduced explicit safeguards intended to limit the expansion of guarantee operations within the development budget. In particular, it set a €10 billion ceiling on the EFSD+ Guarantee, defining the maximum amount of ODA resources available to cover potential losses.

Provisioning rates for each investment window were established in advance, ranging from 9 per cent to 50 per cent, depending on risk profiles. By contrast, no ceiling was established for EU grants used in blending operations. As a result, while the use of ODA resources for guarantees is capped, the grant component of blending remains uncapped in regulatory terms. Together, these measures have shaped how blended finance has been implemented so far.

Despite the political emphasis on blending and guarantees, EU international cooperation continues to rely overwhelmingly on conventional modalities – primarily grants and budget support. In 2023, financial instruments accounted for just 1.9 per cent of all EU development disbursements (€346 million out of €17.9 billion).[8] This confirms that, in practice, development funding remains largely concentrated in non-repayable support aligned with poverty alleviation and core development objectives.

At the same time, trends in budget allocations and commitments suggest a gradual shift towards blending finance, even while remaining within the existing legal caps. This signals a potential reorientation of development priorities that deserve closer attention.

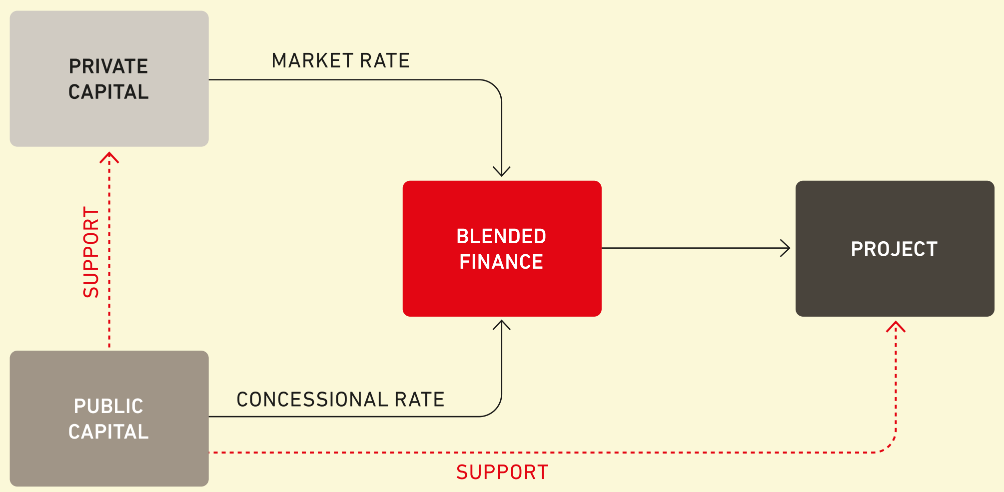
Figure 2 illustrates the progressive scaling-up of blending and budgetary guarantees over time. This trend is reinforced by signals from the draft 2026 EU budget, which foresees a sharp increase in contributions to the Common Provisioning Fund – the mechanism that underpins EU budgetary guarantees – alongside declining commitment appropriations for regular geographic NDICI allocations. Importantly, this shift does not reflect an expansion beyond the current provisioning ceiling. Rather, it indicates a reorientation of budgetary priorities within the constraints of the existing framework. One example is the 'Support to investments' envelope, following the June 2023 mid-term review of the 2021–2027 Multiannual Financial Framework (MFF).[9]

More recently, the European Commission has indicated that close to 80 per cent of the EFSD+ guarantee capacity under the Open Architecture has already been committed. They also reported that demand for guarantees – particularly under European Investment Bank (EIB)-managed windows – now exceeds the available lending volume by the end of the investment period.[10] This represents a sharp acceleration compared to the situation observed by the European Court of Auditors in 2023, when the EFSD+ guarantee was characterised by low operationalisation.[11] However, the information that is publicly available does not explain the drivers of this rapid shift, nor does it provide qualitative information on where the increased use of guarantees is being deployed, through which implementing partners, in which sectors, or with what expected outcomes. In a political context marked by simplification and reduced reporting, this sudden acceleration leaves the European Parliament and the Council without the information required to assess the orientation and implications of the Commission's operational choices.[12]

Taken together, these elements show that the mainstreaming of blending and guarantees under the current MFF has already shifted the balance of EU development finance. The initial cap on guarantee provisioning, along with the continued legal emphasis on core development objectives, helped to contain the scale of guarantees during the early years of NDICI implementation. Yet, even within these limits, a critical shift is now evident in both commitments and budgetary exposure.

The EFSD+ therefore provides an important baseline. It demonstrates how an integrated financial architecture, operating under strong legal safeguards and development objectives, can nonetheless progressively tilt development finance towards profit-driven projects through the promotion of risk-sharing instruments. As the EU moves forward, it is essential to draw lessons from the EFSD+ to understand the challenges of an EU budgetary framework that proposes to rely on the same architecture while explicitly broadening policy objectives beyond development.

Box 1: Basic structure of blended finance models



2. Assessing financial additionality under the EFSD+: claims and evidence gaps

The promotion of blended finance under the EFSD+ is grounded in the concept of the 'financing gap'[13] for development and climate goals. This approach assumes that limited public resources can catalyse private capital at scale, thereby justifying the use of development budgets to support risk-sharing instruments. Financial additionality – the mobilisation of investments that would not have occurred otherwise – is therefore the central rationale underpinning the EFSD+.

However, available evidence raises persistent questions about whether this additionality is being delivered in practice. Empirical analysis shows that private capital mobilisation remains weakest where development needs are greatest. According to the Organisation for Economic Co-operation and Development (OECD):

> "middle-income countries (MICs) remain the main beneficiaries, accounting for 50% of total mobilised private finance on average over 2020-23. Within this category, upper-middle income countries (UMICs) were the main recipients of private finance mobilised over this period, followed by lower middle-income countries (LMICs). By contrast, only 12% of mobilised private finance targeted projects in LDCs [least developed countries]. Overall, mobilised private finance has scarcely benefited countries most in need, including countries in fragile contexts such as small island developing states (SIDS)."[14]

These patterns point to structural constraints rather than implementation gaps. This is a reality that has also been acknowledged by the World Bank Chief Economist, Indermit Gill, who has described the private capital mobilisation agenda as a "fantasy".[15] Recent global trends in blended finance volumes do not fundamentally alter this picture. While blended finance reached US$18.3 billion across 123 deals in 2024, activity remains highly concentrated and volatile, with a small number of large transactions accounting for a disproportionate share of volumes (see Figure 3). Higher mobilisation ratios are largely driven by guarantees and large-scale operations, rather than broad-based crowding-in of private capital. Flows remain concentrated in commercially attractive markets, while low-income countries, SIDS and fragile contexts account for only a marginal share of deals, limiting the relevance of aggregate mobilisation figures as evidence of additionality.

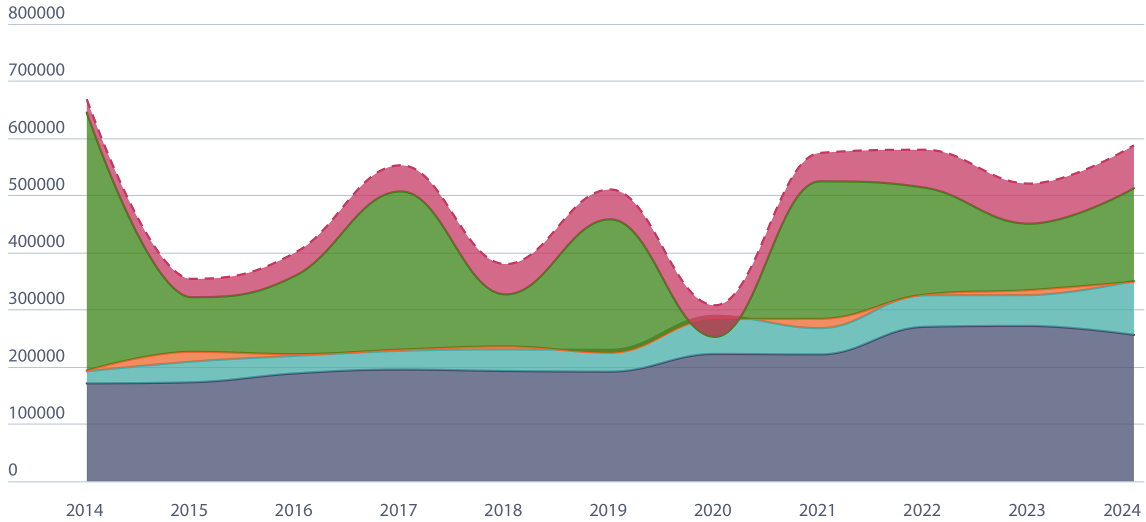
EU reporting on blending and guarantees reflects similar limitations. The Commission reports that, since 2007, "EUR 10 billion of EU grants are estimated to have leveraged over EUR 88 billion of loans by financial institutions and regional development banks" and estimates that the EFSD+ will mobilise EUR 500 billion over 2021–2027.[16] More recent reporting refers to leverage ratios across EFSD+ investment windows. However, no clear or consistent methodology is provided to explain how these figures are calculated, whether they relate to signed or disbursed amounts, or how EU risk exposure is accounted for. As a result, these figures cannot be verified, compared across windows or interpreted as robust evidence of financial additionality.

Oversight bodies have raised similar concerns. The European Court of Auditors has criticised earlier Commission leverage estimates as "insufficiently reliable", noting that initial ratios were later significantly revised downward.[17] The December 2024 External Evaluation further found that EFSD+ guarantees rarely lead to genuinely new operations and often replicate existing development finance institutions' projects, with no clear evidence of private finance being crowded in, as required under Article 2(10) of the NDICI Regulation.[18]

Taken together, the evidence shows that, even where blended finance and guarantees are being used, financial additionality is rarely demonstrated in a consistent, transparent or verifiable way. This is not a question of intent, but of proof. When development resources are deployed to support risk-sharing instruments, financial additionality is a necessary condition and yet, on the basis of the available data, this condition cannot be assumed.

Figure 3: Total flows towards global south and mobilised private finance (all recipients) over 2014–2024

Net disbursements in US$ million (2023 constant price)



Source: OECD (2025)[19]

3. Limited and uneven development impact under the EFSD+

The NDICI-Global Europe regulation, under which the EFSD+ operates, places poverty eradication, “support to vulnerable groups” and human development at the heart of EU international cooperation.[20] Both the Regulation and subsequent Council Conclusions[21] explicitly prioritise least developed countries (LDCs), heavily indebted poor countries (HIPCs) and fragile contexts, setting a target of allocating at least 20 per cent of ODA to social inclusion and human development sectors such as health, education and social protection. Both, the Gender Action Plan III and the NDICI-Global Europe regulation state that all EU funded actions, including investments under the EFSD+, must mainstream gender equality and contribute to the 85% gender marker.[22] The EFSD+ is formally expected to contribute to these objectives alongside other implementing modalities.

However, available evidence from EU reporting, external evaluations and oversight bodies points to a persistent gap between these commitments and the development outcomes delivered through the EFSD+, particularly where guarantees and loan-based instruments are concerned. This gap does not primarily reflect a failure of implementation, but rather structural constraints linked to the nature of the instruments.

3.1 Not the right instrument to reach the most marginalised

Multiple evaluations warn that the EFSD+ portfolios are ill-suited to support the EU’s own development objectives in LDCs and fragile contexts. The 2022 OECD mid-term peer review of the EU Institutions (published in 2024),[23] the EFSD+ External Evaluation[24] and the recently published OECD EU peer review report[25] all highlight the continued reluctance of development finance institutions – particularly highly rated institutions such as the EIB – to operate in high-risk environments. This is due to shareholder expectations, credit rating constraints and weak local financial ecosystems. Guarantees, which dominate EFSD+ support, are often inaccessible in these contexts.

While blending, through regional facilities, appears to reach LDCs at levels broadly in line with NDICI targets, guarantees perform significantly worse.[26] This is the case despite the NDICI Regulation explicitly providing for discounted remuneration of the EAG when operations target LDCs, as a measure intended to incentivise deployment in higher-risk contexts. The Commission has not published comprehensive data on the share of EFSD+ guarantee support reaching LDCs, and the EC-commissioned External Evaluation notes that loan-based instruments may not benefit these countries at all.[27]

Taken together, this suggests that even targeted incentives embedded in the regulatory framework have not been sufficient to shift guarantee operations towards the most vulnerable contexts. As a result, the growing emphasis on guarantees risks reinforcing existing allocation patterns favouring more commercially viable markets, even while the EFSD+ remains formally anchored in poverty eradication.

3.2 Human development: Marginal contribution despite explicit targets

Human development represents one of the clearest gaps between policy ambition and delivery. Despite the NDICI target to allocate 20 per cent of ODA to social inclusion and human development, including gender equality, EFSD+ commitments to these sectors remain limited. As Table 1 shows, as of the end of 2024, only €959 million – around 6.5 per cent of the €14.7 billion in signed EFSD+ operations through Investment Window (IW1) and the Open Architecture (OA) – was directed to human development sectors.[28] There is no available data for Investment Window 4 dedicated to African Caribbean Pacific (ACP) countries, which includes many LDCs.

Table 1: Human Development Commitments (end of 2024)

Instrument	Window / Scope	HD Volume (in €)	Window Total (in €)	HD Share
EFSD+	IW1	759mn	10.23bn	7.42%
EFSD+	Open Architecture	200mn	731.2mn	27.35%
EFSD+	**Total (IW1+OA windows)**	959mn	14.72bn	6.52%

Source: Authors' calculation from data retrieved.[29]

This limited contribution reflects structural constraints rather than lack of policy intent. Guarantees and blended finance tend to favour large-scale, commercially profitable projects, while health, education and social protection are characterised by operational expenditure needs and limited revenue streams. Interviews with EU staff and development banks confirm the scarcity of profitable projects in these sectors. Moreover, much of the reported human development support appears linked to time-bound responses to the COVID-19 crisis (for example, access to and production of vaccines), rather than sustained investments in systemic strengthening of public services.

3.3 Inclusive economic development: Weak targeting of local actors

Inclusive economic development remains largely aspirational within EFSD and EFSD+ operations. Despite the NDICI mandate to support social economy enterprises and cooperatives as well as underserved groups, a 2023 study on EFSD+ contributions to inclusive development shows no explicit targeting of the former, and only marginal attention to women, youth or small farmers. The study concludes that microfinance institutions, which are traditionally seen as key channels for reaching small-scale entrepreneurs, are almost entirely absent – with only isolated cases under EFSD+.[30]

Most guarantees related to micro-, small- and medium-sized enterprises (MSME) rely on intermediaries such as commercial banks, venture capital or equity funds, which primarily serve start-ups and mid-sized corporations. Available data does not distinguish between local SMEs and larger firms with international capital, making it impossible to assess whether EFSD+ support reaches locally-embedded economic actors.

4. Climate action under EFSD+: Scale without alignment to urgency, resilience and responsibility

Climate and energy are presented as central priorities of the EU's external action, with around half of the EU's Global Gateway flagship projects between 2023 and 2026 falling within these sectors (129 out of 256 projects).[31] The EFSD+ underpins a significant share of these initiatives and is increasingly positioned as a key vehicle for delivering EU climate objectives.

However, assessing EFSD+'s climate contribution remains inherently constrained. There is no publicly available data about EFSD+'s role in EU climate action which remains largely asserted rather than demonstrated.

4.1 Climate additionality: Limited mobilisation and uneven relevance

Global evidence indicates that climate blended finance delivers limited financial additionality across income groups. According to Oil Change International, each dollar of concessional public finance mobilised US$0.85 in private finance for the energy transition, dropping to US$ 0.69 in low-income countries, with only marginal variation across income categories.[32] Convergence data confirm that climate blended finance has not mobilised private finance at scale, with activity remaining volatile and concentrated in a small number of large transactions.

While additionality metrics do not measure vulnerability directly, distributional data indicate that climate blended finance largely bypasses the most exposed contexts. In 2024, low-income countries accounted for only around 5 per cent of climate blended finance deals, confirming a declining presence in highly climate-vulnerable settings.[33] This pattern underscores the opportunity cost of relying on blended finance for climate action in contexts facing acute and immediate climate risks.

4.2 Adaptation, resilience and agriculture: Persistent marginalisation

The most critical gap concerns adaptation and resilience. Despite its centrality to development outcomes, adaptation accounted for only 13 per cent of total climate blended finance flows between 2019 and 2024.[34] This reflects structural features of blending and guarantee-based instruments, which favour mitigation-oriented, large-scale and revenue-generating investments. Adaptation interventions, meanwhile, are typically local, smaller-scale and poorly suited to profit-driven models.

Similar limitations apply to agriculture, a sector that is central to climate resilience and food security. While EU blended finance has increasingly been deployed in agriculture – around €200 million invested globally in four funds since 2018 – available evidence does not demonstrate meaningful support for smallholder farmers or agroecological practices. Instead, support appears to be concentrated among commercial actors and financial intermediaries, often relying on debt-based instruments that are ill-suited to inclusive and climate-resilient agricultural development.

4.3 Climate finance, responsibility and urgency

These patterns raise fundamental concerns when assessed against the principles underpinning international climate action. Under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, climate finance is expected to be new and additional, and to reflect the responsibility of historical emitters, rather than shifting the costs of climate action and resilience onto Global South countries, which are the least responsible for climate change.

The increasing reliance on blended finance and guarantees for climate action risks undermining these principles. Global Gateway operates in 29 of the 37 Heavily Indebted Poor Countries[35] and in around 40 per cent of climate-vulnerable countries,[36] which are already in, or at high risk of, debt distress.[37] In these contexts, climate and infrastructure projects supported through the EFSD+ frequently involve loans, guarantees or contingent liabilities, increasing fiscal exposure at a time when climate impacts are intensifying. Rather than compensating for past emissions, this approach is externalising the costs of climate mitigation and resilience onto countries with limited fiscal space, thus reinforcing a debt–climate trap.

These concerns are compounded by the time required to design and implement blended finance operations. Complex financial structuring and lengthy preparation phases mean that these types of instruments are poorly suited to the urgency of climate action, particularly for adaptation and resilience measures that require rapid deployment. In an escalating climate crisis, the opportunity cost of relying on slow-moving, profit-driven instruments becomes increasingly difficult to justify, particularly where rapid, grant-based responses are required.

Aerial view of a solar panel power plant in Benin commissioned in July 2022 as part of a Team Europe Initiative.

Photo: European Union, 2024

5. Lack of transparency and accountability: Perpetuating the perception of delivery

One of the most persistent and consequential shortcomings of the EFSD+ is its lack of transparency. The European Court of Auditors has found the Commission in breach of several transparency obligations under the NDICI Regulation, noting that performance data for financial instruments is not systematically available. The EFSD+ reporting does not provide disaggregated information on flows to LDCs, despite their explicit prioritisation under the Instrument, including for EFSD+ operations.

This opacity directly undermines the ability to assess whether the EFSD+ is delivering on its stated objectives. Despite clear obligations under Article 41 of the NDICI Regulation, the Commission has not demonstrated the additionality of the EFSD+ operations. This concern has been raised by the recently published OECD EU peer review, which stresses that "information is lacking on the additionality of investments supported by the EFSD+".[38] Instead, reporting continues to rely on assumed rather than proven development impact, a pattern already identified under the previous EFSD that is still unresolved. Given that EFSD commitments have now ended, the absence of an instrument-level impact assessment is particularly problematic and raises concerns about the evidentiary standards applied to financial instruments.

As we have seen above (see Section 4), the transparency gap is especially visible in the area of climate finance.[39] Despite the existence of internationally agreed OECD methodologies that allow climate finance attribution – including for private sector instruments and guarantees – it is not possible to extract consolidated, EFSD+-specific climate data from publicly available sources. This includes the absence of information on climate-specific volumes, leverage ratios and the split between mitigation and adaptation. As a result, EFSD+ is increasingly presented as a central climate delivery tool without the data required to assess its contribution, its alignment with climate vulnerability or its opportunity cost in the context of accelerating climate impacts. The OECD itself has made clear recommendations for robust measurement frameworks to track the impact of blended finance instruments.[40]

Rather than addressing these gaps through systematic reporting, the Commission increasingly relies on selective and anecdotal evidence to illustrate EFSD+ impact. Isolated figures on jobs created or supported, or examples drawn from individual guarantee agreements are presented in the absence of comprehensive data sets and robust results frameworks. This approach shifts accountability away from instrument-level assessment towards narrative justification, making meaningful scrutiny by the European Parliament and the Council difficult, if not impossible.

The opacity of the EFSD+ is further compounded by the confidentiality of the Results Measurement Framework (ReMF). While introduced to enhance accountability, the ReMF is not public, and neither results chains nor indicators for EFSD+ operations are disclosed. The Court of Auditors has also noted the absence of a complaint mechanism on the EFSD+ website, despite explicit legal requirements. These shortcomings weaken safeguards for affected communities and limit the EU's ability to demonstrate compliance with its own development principles.

Finally, the lack of transparency is particularly problematic in the case of investment grants in blending operations. These grants – typically used to reduce initial project costs – are transferred upfront to commercial ventures without any safeguards or justification regarding their use, additionality or expected impact. As noted by the Court of Auditors, information about such "investment operations" has not been disclosed as required under the Regulation, preventing scrutiny of their use, additionality and expected development impact.[41]

6. Global Europe Instrument proposal and financial tools: Accelerating existing risks

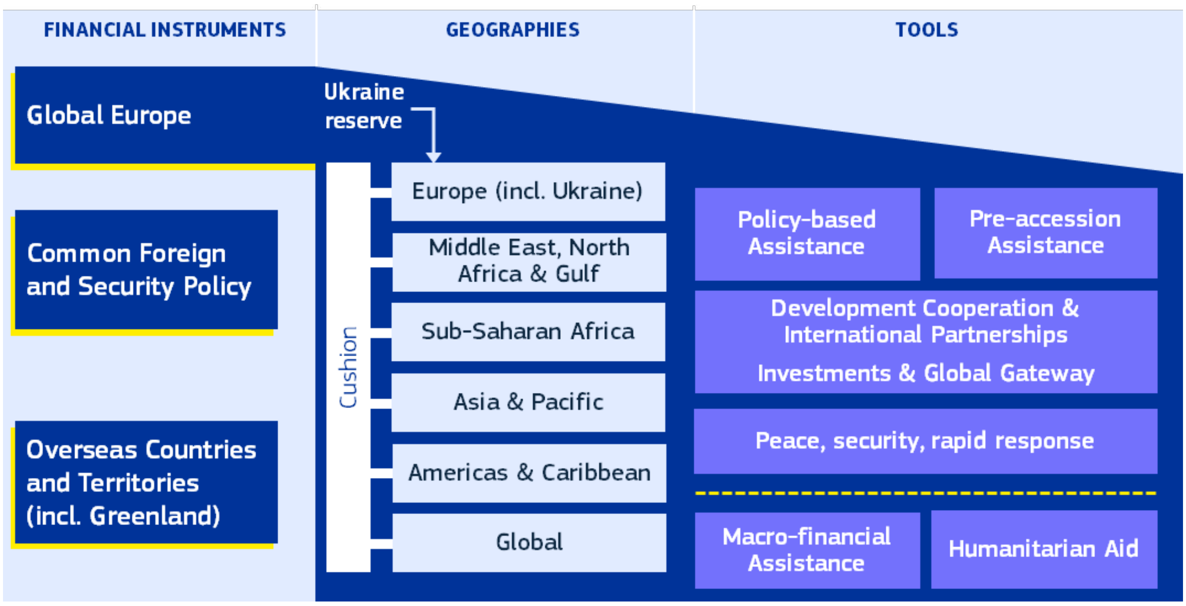
The release of the proposal for a new Global Europe Instrument marks a shift in the EU's external action architecture.[42] Unlike the current NDICI framework, which legally anchors poverty eradication and development objectives, the proposed new instrument extends the mandate of EU external financing to a broader set of geopolitical, economic and strategic priorities. Yet this expanded policy scope continues to rely on a budget that is largely labelled and justified as development and climate finance. This tension is central to the assessment that follows. As development resources are increasingly being mobilised to serve multiple objectives beyond development, the safeguards, limits and accountability requirements attached to their use become more critical than ever. In this section, we identify five key features of the proposed Global Europe Instrument that require careful consideration from the European Parliament and the Council of the European Union, as the co-legislators.

6.1 The expansion and flexibility of the development finance architecture

One of the key features of the Global Europe Instrument proposal is the expansion of the EU's financial toolbox, with the stated aim of enhancing the EU's ability to act more 'flexibly' and 'coherently'. As we argued above, this follows recent trends in EU development policy exemplified by the EU Global Gateway strategy. The proposal states that:

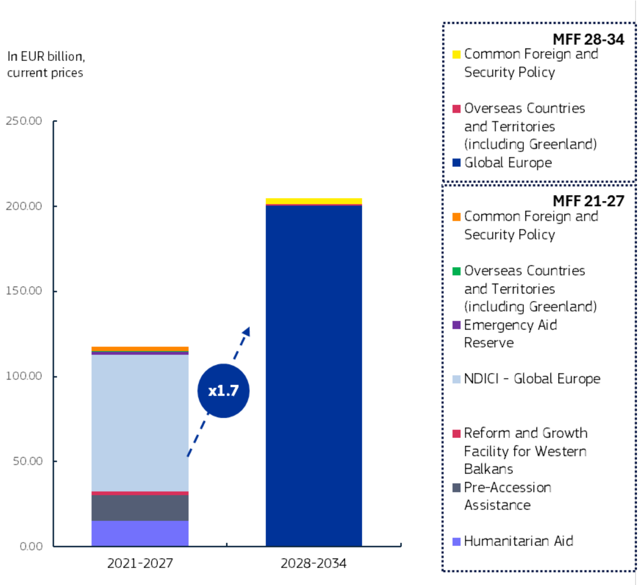
a. direct grants to EU-based private sector entities for projects of 'strategic interest' are allowed;
b. guarantees are open to export-credit agencies (ECAs) and private financial institutions; and
c. policy-based lending and macro-financial assistance – previously limited to a narrower set of countries – are now embedded more systematically into the toolbox (see Figures 4 and 5).

Figure 4: Structure of the Global Europe Instrument



Source: EC (2025).[43]

Figure 5: Evolution of the EU external instrument



Source: EC (2025).[44]

funds, which allows the Commission to act faster on competitiveness-related grants without formal procedures. As a whole, these tools reflect a more explicit investment-driven approach, aligning external cooperation with Europe's competitiveness agenda and broader economic and geopolitical objectives.

However, as development resources continue to underpin this expanded financial toolbox, clear separation of funding modalities becomes essential. Grants and budget support must be ringfenced for core development objectives, while blending instruments and guarantees should be capped, strictly conditioned, and subject to robust safeguards and transparency requirements. Without this kind of discipline, the future architecture risks multiplying financial tools and weakening the EU's ability to demonstrate that it fulfils Treaty obligations.

6.2 Direct awards to commercial entities, including EU companies, without competitive procedures

The proposed introduction of a direct award mechanism is particularly consequential in light of the transparency gaps identified under EFSD+. Under the NDICI Regulation, direct awards (Article 27) are permitted only under strict conditions and they exclusively target public entities and civil society organisations (CSOs). By contrast, as mentioned above, the proposed Global Europe Instrument would grant the Commission broader discretion to award grants directly – without a call for proposals – to EU-based companies for projects that are in the EU's "strategic interests". Indeed, according to the proposed regulation, "such a direct award could be justified, for example, to enable investments or finance feasibility studies in strategic areas such as critical raw materials, climate change resilience or digital and other infrastructure, in particular as part of integrated packages, to enhance the Union's strategic autonomy".[45]

This represents a qualitative shift. Competitive procedures are not merely administrative steps; they are key mechanisms to ensure transparency, equal access to funding and non-discrimination in the allocation of EU resources. By enabling early-stage support outside such procedures, this mechanism concentrates discretion and reduces contestability. In the absence of strict safeguards, it risks undermining principles of transparency and equal treatment that underpin EU development spending.

6.3 No ceiling on guarantee provisioning

Another major concern in the Global Europe Instrument proposal is the removal of an explicit ceiling on the provisioning of the budgetary guarantee, even as its overall capacity would more than double to €95 billion. Under the current MFF, the cap on guarantee provisioning has been one of the few remaining safeguards limiting the expansion of risk-sharing instruments. Its removal marks a qualitative escalation in policy direction rather than a technical adjustment.

Evidence from Europe and globally shows that guarantees have not delivered meaningful additionality or development impact in the least developed and fragile contexts, except in very specific and limited cases.[46] This is not a question of insufficient risk appetite. Development challenges in these settings require targeted approaches that go beyond market-driven solutions, recognising the need for building a social contract between the public sector and its people. Expanding guarantees on the assumption that higher risk tolerance will unlock impact risks diverting scarce public resources, while proven funding modalities such as grants and budget support remain essential to strengthen state capacities and deliver in the public interest.

Given persistent doubts about the additionality of EU blended finance, increasing risk tolerance within these instruments also raises the likelihood that guarantees will be captured by projects that need them least, rather than those facing structural barriers. To date, the share of guarantees deployed in LDCs remains unknown. A ceiling on guarantee provisioning is therefore essential to restrict their use for operations that are high risk but with high social and developmental impact. This should be integrated into a broader architecture that clearly separates blending operations and budgetary guarantees from conventional forms of EU funding.

6.4 Expanded use of policy-based lending

The proposed introduction of policy-based loans under the Global Europe Instrument raises concerns in a context of rising debt. Over the last decade, public debt levels have increased sharply across many Global South countries, constraining fiscal space and limiting governments' ability to invest in health, education, social protection and climate resilience.[47] In this context, policy-based loans modelled on budget support risk adding to debt burdens rather than alleviating development constraints, particularly in countries already assessed as being at high risk of debt distress.

Moreover, as the "primary purpose of such policy-based loans is to [...] catalyse investments", this raises additional concerns about the risk of using development resources to promote a policy agenda that fits – first and foremost – the EU's trade and competitiveness agenda.[48] The promotion of a policy agenda based on the liberalisation and deregulation of the energy sector and the privatisation of public infrastructure – largely benefitting foreign-owned enterprises – is a serious concern, This issue has also been raised in the context of the EU's Global Gateway strategy and should be systematically addressed through the design and implementation of targeted measures involving experienced development stakeholders.[49]

Without strict eligibility criteria, full engagement from a broad range of stakeholders at the country level, transparency on terms and strong alignment with debt sustainability frameworks, such instruments risk shifting adjustment costs onto Global South countries under a development label as well as restricting the policy space for a nationally-owned agenda aimed at structural transformation of the economies of the Global South. Rather than supporting sustainable development pathways, they are likely to reinforce debt-driven vulnerabilities, undermine long-term resilience and deepen commodity dependence.

6.5 A shrinking share of ODA-reportable operations and indications of a return to tied aid practices

The proposed change to the percentage of the EU budget that will fulfil the criteria for ODA (the so-called 'ODA target') from 93 per cent to 90 per cent is a key feature of the Global Europe Instrument.[50] In practice, this means that a bigger share of the EU budget – 10 per cent instead of 7 per cent under the current MFF – will be implemented outside of the criteria for ODA. Worryingly, this reference is accompanied by a provision that grants the European Commission flexibility "to amend" this percentage through delegated acts.[51]

Given the introduction of a grant mechanism for the European private sector, the possibility of deploying guarantees through ECAs that operate according to ODA-tied aid logic,[52] and the promotion by the Commission (and some EU Member States) of private sector engagement, serious questions can be raised regarding the EU's commitment towards an ODA agenda based on quantitative and qualitative measures.[53] Taken together, this sends a very problematic political message to Global South countries.[54] Indeed, export credits are provided at near-market terms and are primarily for commercial purposes. For this reason, they are not eligible to be reported as ODA, even in the context of private sector instruments.[55] As a minimum measure, it is critical to include specific provisions to allow for a clear oversight by EU Member States on the ODA target and allocation decisions, not leaving this possibility to unilateral decisions by the Commission.

In any case, an expanded role for ECAs in the EU financial architecture for development comes as no surprise. There are ongoing discussions on greater coordination with ECAs,[56] and the EU is focused on identifying "opportunities for enhanced cooperation between export finance and development finance", including in the context of the MFF.[57] This raises concerns about the suitability of such coordination for development objectives, particularly in the absence of binding human rights and environmental standards, and weak rules on transparency, due diligence and accountability of ECAs as well as Development Finance Institutions.[58] While ECAs play a key role in supporting EU companies to invest around the world, their explicit role is promotion of national commercial interests, not the development of the local productive sector in the Global South.

Moreover, this policy development points to a revival of tied aid as an accepted instrument in EU policy discussions, despite being one of the most problematic practices in international cooperation. By requiring that goods and services financed through ODA are procured from the provider country, tied aid effectively enriches the provider at the expense of Global South country development. This practice increases the cost of a development project, undermines national systems, distorts local markets and weakens the principle of country ownership.

OECD estimates show that tied aid makes projects 15 to 30 per cent more expensive. Around 24 per cent of EU ODA (from EU Member States and EU institutions) is still tied.[59] While the OECD's Development Assistance Committee (DAC) has developed a fairly robust framework to dissuade its members from tying their aid,[60] the promotion of commercial interests might have a problematic impact on the recently-launched OECD-DAC review process and decisions on what is considered as tied or untied aid.[61] It is critical to keep the decision-making processes of ECAs and ODA truly independent to avoid conflicts of interest and ensure clarity in the pursuit of their respective mandates.

Using ODA to advance EU interests runs counter to the EU's commitment to the aid effectiveness agenda. It shifts the focus away from the national development priorities of countries in the Global South – which the EU's ODA is meant to support – in favour of the domestic interests of its Member States. This can be observed in a major shift of ODA away from the countries that need it most, including – most notably - by the EU institutions.[62]

If the EU is serious about its aid effectiveness commitments, it should align its procurement practices with the principle of democratic ownership, including through budget support and the use of local procurement systems in order to strengthen the expansion of national and local economic sectors in the Global South. Prioritising EU interests increases the risk of non-development, interest-driven spending and introduces unpredictability for Global South countries, potentially undermining the EU's poverty reduction objectives.

7. Conclusion and policy recommendations

Conclusion

Fifteen years after blending was introduced into the EU's development toolkit, there is still no robust evidence that these financial instruments deliver meaningful development or climate outcomes in the poorest and most climate-vulnerable contexts. While blended finance and guarantees can play a role in specific, commercially viable situations, their progressive mainstreaming within EU international cooperation comes at the expense of traditional and proven funding modalities such as grants and budget support.

The EU's Global Gateway strategy has reinforced this trajectory by positioning financial instruments as central delivery tools for a widening set of objectives. Yet the evidence reviewed in this report shows that financial and development additionality remain weak, human development and inclusive economic outcomes are marginal, climate resilience and adaptation measures are largely unmet, and transparency and accountability measures are insufficient. Rather than reflecting implementation failures, these outcomes point to structural limits inherent in market-based instruments when they are expected to address core development and climate needs.

The proposed Global Europe Instrument for 2028–2034 risks entrenching these dynamics further. By extending the mandate of EU external financing well beyond development – while continuing to rely on a budget largely justified as development and climate finance – it risks diluting objectives without adapting safeguards accordingly. The European Parliament and the Council of the EU – as co-legislators – face a critical choice: whether to continue expanding financial instruments without evidence that they deliver on core objectives, or to restore discipline, clarity and accountability in the EU's development architecture.

Policy recommendations

To ensure consistency with sustainable development objectives, avoid high opportunity costs and enhance transparency and accountability, **we call on co-legislators to implement the following five measures:**

1. **Establish a binding minimum share for grant-based modalities, safeguarding predictable funding for core sustainable development objectives and civil society.**
    - **Earmark a minimum share of ODA for grant-based modalities not delivered through blending or budgetary guarantees**, with particular attention to grants and budget support and to civil society organisations as key implementing partners.
    - **Create a dedicated and predictable EU international climate finance mechanism** to ringfence a defined multi-annual envelope – particularly for adaptation and resilience – delivered through grant-based, non-debt-inducing instruments.
    - Resources used to directly **support the EU private sector** and EU competitiveness – including through ECAs – should not be financed from the EU development budget and **should instead be covered by the non-ODA portion** of the future instrument.
    - The EU should **engage constructively in global discussions on defining the role and measurement of ODA** with a view to enhancing its development purpose; it should also support these discussions in inclusive multilateral settings such as the UN.

2. **Regulate the use of blending and guarantee operations.**
    - **Set a binding ceiling on blended finance operations** – including (investment) grants, guarantees and loan components – to cap the share of ODA channelled through investment-based tools and preserve space for other modalities such as budget support and non-blending grants.

- **Require explicit justification for the use of blending and budgetary guarantees**, including an assessment of debt sustainability for sovereign operations.
- **Introduce clear rules for loans as a form of EU funding**, including policy-based loans, with ceilings, debt-sustainability safeguards and transparency requirements.
- **Align the level of regulatory detail across modalities**, ensuring that loans, budgetary guarantees and the grant component of blending operations are subject to implementation rules comparable to those governing budget support, including conditions of relevance, objectives and oversight.
- Ensure that **cooperation with the EU private sector occurs exclusively through blending and guarantee instruments** and avoid the use of direct grant contracts for EU-based companies.
- **Use EU policy-based loans, free of economic policy conditions, tailored to** Global South countries' needs and priorities, and in line with EU commitment to policy coherence for development.

3. **Align the proposed single financial toolbox with core sustainable development and climate standards**
   - Establish a **formal framework to govern blending operations and budgetary guarantees** under the instrument's investment framework, including criteria on relevance, transparency, development and financial additionality.
   - **Limit the use of blending operations and budgetary guarantees under the investment framework to private sector companies that comply with the highest standards** of due diligence, as set out in EU regulations and OECD standards. Furthermore, companies need to ensure collective bargaining rights, fulfil labour standards in line with International Labour Organization (ILO) recommendations, be aligned with the Paris Agreement and demonstrate a clear contribution to development objectives.
   - **Make support to local economies an explicit and a primary objective**, including local currency lending and financing for local public development banks, MSMEs, cooperatives and other sustainable and inclusive business models, micro-finance institutions and women entrepreneurs, with progress tracked explicitly in annual reporting.
   - **Institutionalise meaningful civil society participation** throughout the blending project cycle, including in design, implementation and evaluation phases.
   - **Integrate the inequality marker across all stages of blended finance project cycles63 and set binding targets for the whole Single Financial Toolbox envelope**, with at least 85 per cent of interventions marked I-1 or I-2 combined, and 40 per cent marked I-2; ensure there is funding available to conduct Distributional Impact Assessments + (DIA+)[64] that demonstrate empirically that the bottom 40 per cent in terms of wealth, income and consumption and/or other socio-economically disadvantaged groups and individuals have been reached by the projects.
   - **Meaningfully integrate gender equality under ESFD+ actions, in line with the Gender Action Plan III and its successors**. To ensure a mainstreamed and targeted approach to gender equality under the Global Europe instrument, at least 85 per cent of all EU ODA will be dedicated to programmes that have gender equality as one of their objectives (OECD marker G1 or G2) with 20 per cent of ODA dedicated to gender-targeted projects (OECD marker G2). At least 5 per cent of ODA should support women's rights organisations.
   - Implement the EU's Global Disability Summit commitment to pilot DIA+ on people with disabilities[65] within EFSD+, with dedicated funding and the mandatory use of disaggregated data to demonstrate inclusive development outcomes.

4. **Enforce robust transparency and reporting standards, and enhance democratic accountability.**
   - **Require full disclosure of financial performance data for all blending and budgetary guarantee operations under the instrument**, including methodologies.
   - **Require publication of key financial and sustainable development and climate indicators for each blending or guarantee operation** on a dedicated, publicly accessible platform, following a standardised format.
   - **Ensure that leverage and mobilisation indicators follow international standards**, including OECD methodologies.
   - **Make the EFSD+ Results Measurement Framework public**, with reporting at instrument, window and platform levels.
   - **Require annual reporting obligations**, including clear explanations of how blending operations are expected to contribute to development outcomes and how debt sustainability is assessed.
   - **Mandate regular, independent evaluations**, commissioned by the European Parliament, of the actual sustainable development and climate impact and additionality of blending operations.
   - **Ensure accessible and functional complaint mechanisms** for blending and guarantee operations, with clear obligations for partner financial institutions to respond and follow up.

5. **Establish a Standing Rapporteur of the European Parliament on blending instruments**

As the budgetary authority, the European Parliament must be able to exercise continuous and informed scrutiny over these instruments, which currently remains fragmented and largely ex post. A Standing Rapporteur would support structured oversight throughout the budget cycle, including access to relevant information such as Proposed Investment Programmes (PIPs), and ensure continuous parliamentary interface with the governance of the single financial toolbox and Global Gateway. The regulation should set out the principle of this role, while leaving the precise scope, modalities and powers to be defined by the European Parliament, in line with its institutional prerogatives. This would strengthen transparency, democratic accountability and parliamentary oversight over the use of development resources.

Grants and budget support remain indispensable for reducing poverty and inequalities, promoting human development, climate adaptation and resilience. The use of blended finance, guarantees and loans can be complementary if used prudently, with well-defined and demonstrable contributions to EU development objectives. Resetting the balance is essential to preserve the credibility, effectiveness and legitimacy of the EU's international cooperation.

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About the authors

actionaid

ActionAid is an international federation working to fight poverty and injustice worldwide. It delivers grassroots programmes and emergency relief and campaigns on issues such as women's rights, tax justice, and climate justice. Through its work, ActionAid empowers communities to claim their rights and participate actively in shaping more just and inclusive societies.

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CONCORD

European Confederation of NGOs working on sustainable development and international cooperation

CONCORD is the European Confederation of 58 NGOs working on sustainable development and international cooperation. We envision a world where people live free of poverty and exploitation. This must be achieved by a citizen-led transformative agenda based on social justice and gender equality and respecting diversity and the limits of our planetary capacity. We are the main interlocutor with the EU institutions on sustainable development policy and international cooperation. We work together to ensure that European policies promote sustainable economic, social and human development, addressing the causes of poverty, based on human rights, gender equality, justice and democracy.

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Eurodad (the European Network on Debt and Development) is a network of 61 European NGOs in 28 countries. We work to ensure that the financial system at the global and European levels is democratically controlled, environmentally sustainable, contributes to poverty eradication and delivers human rights for all.

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