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The rise of public development banks in the European financial architecture for development

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Abstract

Public development banks (PDBs) have taken the front stage in development narratives and endeavours at the international level and in Europe. The COVID-19 pandemic has further heightened their role in the response to the crisis and recovery process towards building back better and greener, in more inclusive, gender sensitive, transformational and impactful ways.

The recent evolution of the European financial architecture for development (EFAD) has put European public development banks at the heart of the European development finance system in a more open, integrated and coordinated way. By doing so, European PDBs can reach out, under the 'Team Europe' banner, to external partners, promoting both impactful development and greater synergies and visibility of the EU actions. PDBs can be critical instruments to promote resilience to shocks and crises (financial, economic, pandemic, climate, etc.) and help both stabilise the economy and foster a more rapid long-lasting recovery, in particular if they can play a counter-cyclical role and help build back better. By providing medium- and long-term finance aligned to the Paris Agreement and the 2030 Agenda for Sustainable Development, they can contribute to more systemic transformations, helping build markets and foster innovation for impactful development. By working better together and with other international and local stakeholders, they can also contribute to mitigating risks and leveraging at scale private finance.

Interestingly, beyond development objectives, PDBs are also an instrument of development and economic diplomacy as well as of geostrategic power, promoting core values and interests as part of Europe's foreign and economic policies, at the EU and national levels, and as illustrated in the case of France, Germany and Italy.

While each PDB in Europe is the result of a specific historical and institutional context, they all tend to have greater prominence in national and EU development processes and foreign policy objectives over the years. Mechanisms have also been established to enhance their coordination at the European level, within the EU framework and between themselves.

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(1) Introduction

Development finance, and PDBs in particular, have been attracting increasing attention due to their major role at the financial and economic levels, addressing an increasingly wide range of development challenges: socio-economic development and transformation, climate change, biodiversity, nature and ocean protection, human development and health in particular, food security and sustainability, and addressing poverty and inclusiveness, including in fragile and conflicted countries. The COVID-19 pandemic has further heightened the role of PDBs in the response to the crisis and recovery processes of building back better and greener, in more inclusive, gender sensitive, transformational and impactful ways.

The recent evolution of the European financial architecture for development (EFAD) has put European PDBs at the heart of the European development finance system in a more open, integrated and coordinated way. By doing so, European PDBs can reach out, under the 'Team Europe' banner, to external partners, promoting both impactful development and greater synergies and visibility of EU actions. PDBs can be critical instruments to promote resilience to shocks and crises (financial, economic, pandemic, climate, etc) and help both stabilise the economy and foster a faster long-lasting recovery, in particular if they can play a counter-cyclical role and help build back better. By providing medium- and long-term finance aligned to the Paris Agreement and the 2030 Agenda for Sustainable Development they can contribute to more structural and systemic transformations, helping build up markets and fostering innovation for impactful development. By working better together and with other international and local stakeholders, they can also contribute to mitigate risks and leverage private finance.

Interestingly, beyond development objectives, PDBs are also an instrument of development and economic diplomacy, as well as geostrategic power, promoting core values and interests, as part of Europe's foreign and economic policies, at the EU and national levels, as illustrated in the case of France, Germany and Italy.

While each PDB in Europe is the result of a specific historical and institutional context, they all tend to have greater prominence in national and EU development and foreign policy objectives over the years. Mechanisms are also established to enhance their coordination at the European level, within the EU framework and between themselves.

This paper outlines the evolution of the roles of PDBs in Europe and the EFAD, and discusses how they contribute to a range of strategic activities, related to development but also to geostrategic and policy objectives.

(2) Historical evolution of the roles of PDBs

PDBs have taken centre stage in development narratives and endeavours, at the international level and in Europe, including in the response to the COVID-19 pandemic and climate change challenges.

Yet PDBs have been around for a long time. Based on public ownership, the objective of development and promotional banks is generally to provide medium and long-term capital, often accompanied by technical assistance and know-how, to stimulate developmental investments of strategic interest.

At the national level some advanced economies have such long-standing institutions as discussed below in the case of the *Cassa Depositi e Prestiti* (CDP) in Italy, whose history goes back to the second half of the 19th century.[1] But it is really with the aftermath of World War II and the need for post-war rebuilding that public development and promotional banks really took off. This is the case in Europe at the national level, as in the case of the *Kreditanstalt für Wiederaufbau* (KfW) in Germany. And this is the case at the international level with the Bretton Woods institutions, which led, over the following decades and the decolonisation process, to the establishment of multilateral development banks (MDBs) at the regional level in Africa, Asia and Latin America (Griffith-Jones & Ocampo, 2018). The establishment of the European Community led to the creation of the European Investment Bank (EIB).

With the post-Cold War era in the 1990s, the European Bank for Reconstruction and Development (EBRD) was established and new national promotional banks and institutions (NPBIs) were set up also in Central and Eastern Europe. The purpose was to help lead market-based transitions and investments to ensure the economic development and social well-being of the post-communist countries (Volberding, 2016). The comprehensive expertise developed by the EBRD in this process was later applied to Central Asian and North African countries with a possible extension envisaged to certain sub-Saharan countries.

The rise of China in the 2000s, and of other emerging economies such as Brazil and India, gave a new impetus to the role of PDBs as major development players.

The financial and economic crisis of 2008 has led to a much stronger focus on the need to more actively rely on PDBs to provide counter-cyclical support to stimulate the economy and facilitate strategic investments to promote development in developing countries, but also in advanced economies, including Europe (Bassanini *et al.*, 2015; Olloqui, 2013; Wruuck, 2015). This has led to an empowerment of existing PDBs at the multilateral, regional and national levels, as well as the creation of new ones, such as the New Development Bank (NDB), which is the BRICS Development Bank, and the Asian Infrastructure Development Bank (AIDB), further stimulated by the Chinese Belt and Road Initiative (BRI).

In 2015 the UN 2030 Agenda on Sustainable Development and the need to move from mobilising billions to trillions of dollars to finance the achievement of the sustainable development goals (SDGs), as agreed in the Addis Ababa Action Agenda (AAAA), put a further emphasis on the role of PDBs and notably on their capacity to mobilise at scale private finance (Griffith-Jones & Ocampo, 2018; UNCTAD, 2016).

[1] In France, the *Caisse des Dépôts et Consignations* (CDC) was established even earlier, at the beginning of the 19th century. The role of public financing institutions can of course be traced back much earlier.

The climate change agenda and the need to finance at scale actions for climate mitigation as well as climate resilience and adaptation, have also significantly contributed to raising the profile of PDBs. They were seen as key actors to help mobilise climate finance at scale, help shape private finance approaches and develop greener financial markets. While these efforts were initiated internationally since the entry into force in 1994 of the United Nations Framework Convention on Climate Change (UNFCCC), emphasised again with the 2001 Kyoto Protocol and the 2010 establishment of the Green Climate Fund under the COP16, the 2015 Paris Agreement strongly boosted the focus on mechanisms for climate finance. The 2021 COP26 further heightened the centrality of climate finance for the future of our planet and the need for PDBs to more actively support developing countries' efforts, not only on climate mitigation but also on climate adaptation, which is grossly underfinanced (UNEP, 2021).

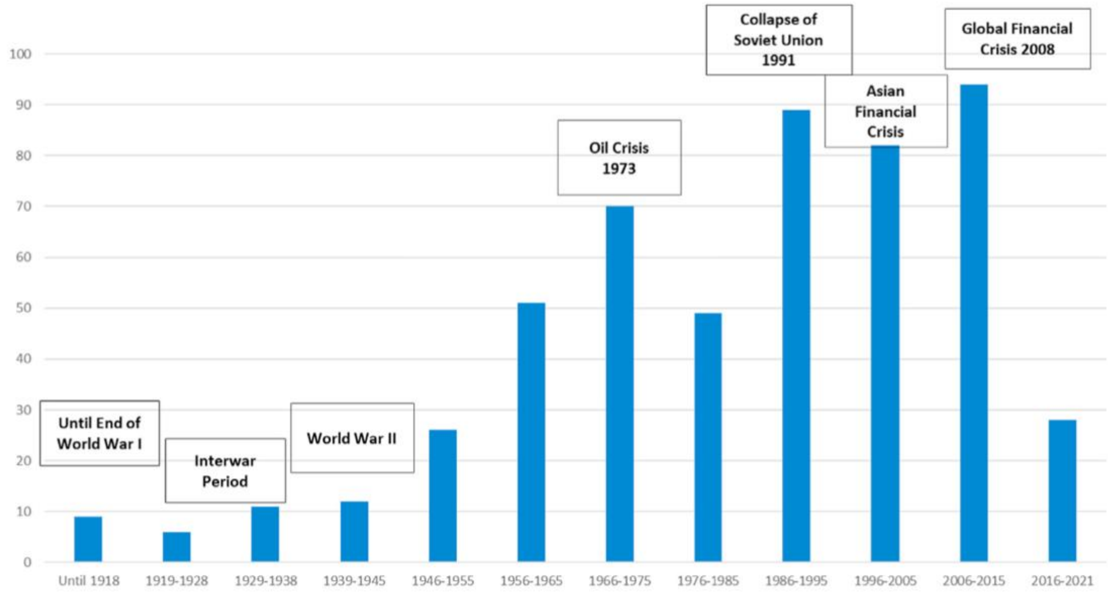
The SDGs, combined with the Paris Agreement, also contributed to a greater focus on the objectives, guiding principles and operational modalities of the PDBs, and ultimately their development impact. Sustainability criteria and climate change ambitions are becoming common yardsticks to guide their actions and assess their contribution to development objectives (Finance in Common, 2020; Riaño *et al*. 2020; Riaño *et al*. 2021). While there is still a long road to go for many PDBs to move away from a deal culture and become truly more transformative in a sustainable, green, inclusive and gender-sensitive manner, the ambitions, guiding principles and shifts in approach are under way.

The COVID-19 pandemic and resulting crisis have put public finance at the core of national and international responses and recovery endeavours in advanced and developing economies, including PDBs (Miller *et al*., 2021). Given the increasing divergence between richer and poorer nations in terms of economic growth, fiscal space and debt sustainability, social inclusion and access to vaccines, more robust actions are called for, as emphasised by IMF Managing Director Kristalina Georgieva (Georgieva, 2021). PDBs have been at the forefront of the response. MDBs and many other PDBs have frontloaded, reallocated and sped up their activities in a counter-cyclical manner to help address the crisis. But their ability to do so in the coming years will continue to be challenged if they do not adapt their approaches and modalities and are not enabled by their shareholders (ie, governments) in terms of their mandate, strategic guidance and financial means (Bilal *et al*., 2020). The discussion on their potential role in the use of special drawing rights (SDRs) reallocated towards developing countries is, in that respect, very symptomatic of some of the systemic challenges that need to be addressed (Andrews, 2021).

So not only has the number of PDBs and development finance institutions (DFIs) significantly increased across the globe over the last decades, as illustrated in Figure 1, but their roles and prominence in the development agenda has also been boosted (Xu *et al*., 2021).

Overall, PDBs are thus a means to provide medium- and long-term finance for impactful development, building markets and promoting economic transformation in a sustainable, green and inclusive manner. But they are also critical instruments to promote resilience to shocks (financial, economic, pandemic, climate, etc) and to help both stabilise the economy and foster a faster long-lasting recovery, in particular, if they can play a counter-cyclical role and help build back better. Interestingly, beyond development objectives, they are also an instrument of economic diplomacy and geostrategic power.

Figure 1. PDBs and DFIs, 1918-2021



Source: Xu *et al*. (2021).

(3) The evolving European financial architecture for development

Europe has been very active in harnessing the potential of its public banks and financial institutions, both within and outside the EU. There is a tendency to clearly distinguish between European internal and external actions and systems. There is, however, an increasing inter-related dimension, including the case of development finance.

The rise of national promotional banks and institutions within the EU has been accompanied by a rise in the role of European PDBs and DFIs abroad. The increasing use of blended finance and guarantees over the last decade has happened both within and outside the EU. The Juncker Plan's European Fund for Strategic Investments (EFSI), launched at the end of 2014, has clearly been inspired by the EIB's setting outside the EU, and notably the ACP Investment Facility and EU blended facilities for regions outside the EU. Similarly, the European External Investment Plan (EIP) and its investment pillar, the European Fund Sustainable Development (EFSD) proposed in 2016 by the Juncker Commission, is a 'derivative' of the EFSI for operations outside the EU.

By the same token, some public financial institutions operate both within the EU and abroad, as in the case of the EIB, CDP and KfW for instance. Domestic and foreign operations are distinct, but some of the settings are similar within a single institution.

The case of the EIB is revealing in that respect. The EIB is both at the core of the EFSI and a key player in the EFSD. In both cases, other European financial institutions have called for a greater opening of the system and for enhanced cooperation.[2] Recent decisions of the EIB to become an EU climate bank and to set up in 2022 a dedicated development branch for its foreign activities reflect an internal evolution within the EU. The Paris Agreement at the COP21 and the European Green Deal, which also entail an external dimension, are at the core of the enhanced ambitions of the EIB, already one of the pioneers in climate finance. It also follows a two-year EU internal discussion process on the potential merits for the EU of adopting a single European Climate and Sustainable Development Bank, which included considerations on how the EIB could enhance its development impact. Internal EIB structures and modalities, which arguably did not sufficiently distinguish between activities within and outside the EU, were called into question.

In practice, the focus on strengthening the European financial architecture for development (EFAD) was initiated over a decade ago, with the establishment of the EU's blending investment facilities at the regional level in Africa, Asia and Latin America, managed by the European Commission. These allowed European PDBs to undertake blended finance operations with funding from the EU development cooperation budget. To a large extent, however, European PDBs and donor agencies have mainly operated in parallel, with a few exceptions. The perceived migration crisis in the mid-2010s led to a more comprehensive response from the EU, led by the European Commission. In terms of development cooperation, this entailed two major dimensions, both captured by the European External Investment Plan.

The first tenet was the desire to adopt a more comprehensive and integrated approach by the EU to stimulate more sustainable and impactful investments, with a view to improving the socio-economic conditions of the population in developing countries, and in particular poorer and more fragile ones. While this was politically motivated by a drive to reduce migration pressures on Europe from Africa, it led to a concrete shift of approach to development. Investments were to be promoted by enhanced blended finance (the first pillar of the EIP) and complemented by significant technical assistance (the second pillar of the EIP). This technical assistance, in the form of grants and technical expertise, should help structure and support investment deals in more complex, fragile and poorer contexts. It should also support policy dialogue and stakeholder engagement to improve the investment climate and regulatory framework of developing countries (the third pillar of the EIP). Investments were therefore no longer considered as a succession of deals but as part of a transformative endeavour. European PDB and DFI operations could thus work in greater synergies with grant operations and policy dialogues, as part of a more coherent and integrated European approach. This requires not only new modalities of engagement but also a shift of culture for PDBs and DFIs and for traditional development cooperation actors, a process that is still ongoing.

The second dimension was the opening up of EU guarantees to financial institutions for development beyond the EIB. This happened under the first pillar of the EIP to

[2] The European Commission has notably been pushing for a more open architecture, fostering the participation of other European PDBs and DFIs, and partially opening up the guarantee mechanism under the single External Action Guarantee under the 2021-27 Multiannual Financial Framework (MFF) and an enhanced EFSD (EFSD+). A similar process took place with the setting up of the InvestEU under the new MFF.

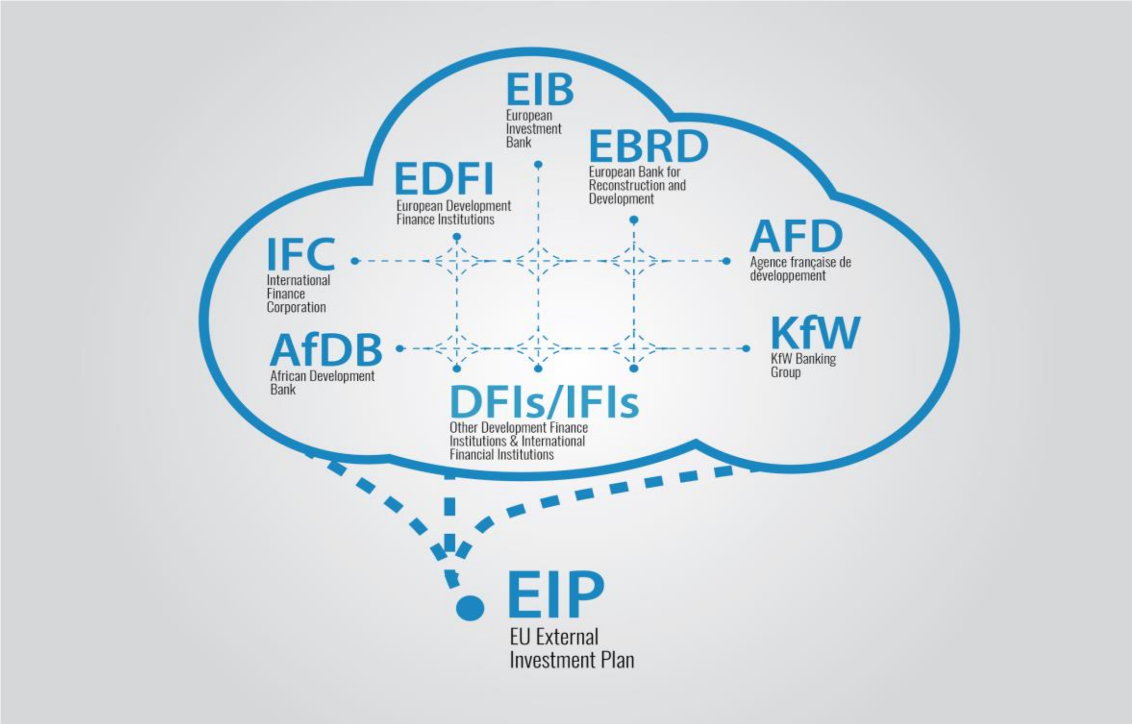
complement the EFSD. The objective was to allow European PDBs and DFIs to undertake activities in riskier and more fragile and uncertain contexts through risk mitigation mechanisms guaranteed by the EU. While the 2016 reforms were constrained by the financial regime and budget of the EU at the time, with the 2021-27 Multiannual Financial Framework (MFF) –the new long-term budget of the EU– a more coherent set of mechanisms could be set up and EU guarantees put under a single instrument, the EU External Action Guarantee (EAG).

As a result of these evaluations, European DFIs overcame their initial reluctance towards blended finance, which they mainly saw as market-distorting mechanisms, and started engaging more actively at the EU level to benefit from EU blended finance and guarantees. European national development banks, which already benefited from national guarantees and blended finance mechanisms, as well as EU blending investment facilities, also became the prime users of the EFSD/EAG, together with the EIB and EBRD.

This new EFAD setting had four major consequences.

First, it put the EU, and in particular the European Commission, at the heart of EU finance for development, steering a constellation of financial institutions for development, as shown in Figure 2. The leading steering and coordination role of the European Commission has become central to the EFAD. The EIB and EBRD, as well as European PDBs and DFIs, have seen their role increased in this new architecture, but under the greater influence of the European Commission, and to some extent also by the Council and its EU Member States: through the Council's Working Party on Development Cooperation and International Partnerships (CODEV-PI) and Working Party of Financial Counsellors (FICO), the adoption of new regulations, and the Strategic and Operational Boards of the EFSD.

Figure 2. The EIP/EFSD+/EAG steering centre of a constellation of (European) PDBs/DFIs



Source: ECDPM.

Secondly, because of their size, experience and political clout, European PDBs have become more prominent in the EFAD. This is also partly the case for larger European DFIs. Large EU Member States, through their prominent role in the EU decision-making process and their dominant financial institutions, have gained a major clout in the EFAD.

Third, the coordination between European financial institutions for development has become more important and thus been significantly strengthened. Indeed, smaller DFIs have tended to be more marginalised in this process. So, in efforts to overcome this size and political clout asymmetry, the Association of European DFIs (EDFI) has on the contrary become a much more active and prominent interlocutor in the EFAD. It conveniently articulates the views and common interests of all 15 European DFIs, accounting for half the EU's member states (as well as the Swiss and British DFIs). EDFI helps, through its members and its secretariat, to harmonise processes, standards and practices with the adoption of common principles, eg, on blended finance, on impact measurement and reporting, on gender-lens approaches (with the 2X Challenge for instance) and on procedures, fostering mutual reliance and facilitating co-investments (EDFI, 2020). EDFI also fosters common actions, forming alliances with other international DFIs (as in the case of the DFI Alliance with FinDevCanada and the US International Development Finance Corporation, DFC) and with European PDBs, including co-investment facilities, as in the case of the European Financing Partners (EFP) with the EIB and the Interact Climate Change Facility (ICCF) with the EIB and AFD. EDFI has also set up a subsidiary, the EDFI Management Company, a specialised asset management company that manages the co-investment facilities EFP and ICFF, facilitates access to EU risk-sharing programmes under EFSD/EFSD+ and manages key EU blended finance projects, such as ElectriFi and AgriFi.

European national PDBs are also increasingly enhancing their long-standing cooperation, most recently with the AECID, AFD, CDP and KfW Joint Declaration on a European Strategic Cooperation Framework, as part of the 'Enhanced Partnership' with the EU (AECID, AFD, CDP & KFW, 2021; Bilal & Gavas, 2021). The aim is to promote common principles and objectives, share knowledge, stimulate joint initiatives and facilitate co-financing, including the structuring of a joint co-financing platform in 2022 with a common contractual framework and pipeline sharing activities.

The focus on the cooperation dimension has been further reinforced by the EFAD discussion debate over the last couple of years. The European Commission in its 2018 Communication *Towards a more efficient financial architecture for investment outside the European Union* had already emphasised it. The 2021 'Feasibility Study on options for strengthening the future European Financial Architecture for Development (EFAD)', conducted at the request of the Council, also outlined the potential benefits of strengthening the coordination among European financial institutions for development, and particularly between the EIB and the EBRD, together with other actors.

European cooperation has also significantly been strengthened with the 'Team Europe' approach adopted by the EU. It aims to foster cooperative common responses to the COVID-19 crisis by the EU, its institutions, Member States and their financial institutions for development and development agencies. Team Europe has thereby become a central pillar of the EU approach (Jones & Teevan, 2021). It helps shape the EU's overall collaborative strategy, including development finance (Bilal, 2020b). In particular, it gives a strong impetus to European PDBs and DFIs to be more innovative and impactful in their activities and to cooperate more with each other (Bilal, 2020a; 2021a). It also reinforces the predominance of larger European member states and their public financial institutions, often at the expense of smaller member states and DFIs, often not sufficiently included in Team Europe and the EFAD (Jones, 2021).

Fourth, the role of the EIB, and to some extent also the EBRD, has also been further heightened in the EFAD. The Wise Person Group on the future of the EFAD recommended the establishment of a single European Climate and Sustainable Development Bank, either around a reformed EBRD –their obvious preferred choice– or a reformed EIB –which they considered not adequate in its current format to properly carry out development activities– or by creating a new bank –an option immediately ruled out by the EU member states (Wieser *et al.*, 2019; Bilal, 2019)–. The proposal and ensuing feasibility study requested by the Council (Senechal *et al.*, 2021), had the unfortunate consequence of putting the EIB and the EBRD at loggerheads, heightening their rivalry in a pointless beauty contest (Bilal, 2021b). However, it has the advantage of attracting the attention on the EIB's activities outside the EU, and more broadly on the role and impact of European PDBs and DFIs.

Three dimensions have particularly been stressed by EU leaders in that context. First, the EU wants a more strategic engagement of PDBs, reflecting EU priorities, interests and values. This is captured under the 'policy first' concept, which has become a guiding principle, in particular for the EIB, the EU bank by definition. Secondly, PDBs and DFIs should bolster their development impact in a greener, more sustainable, more inclusive and more gender-sensitive way. In particular they should become less risk-averse and more actively engaged in more fragile and poorer countries, reaching out to more vulnerable populations. To this end, the EIB decided to set up, in 2022, a dedicated branch for its operations outside the EU, and to increase its local presence in developing countries, teaming up with the EU Delegations (EIB, 2021a). The EBRD is considering expanding its activities to sub-Saharan Africa, a decision to be taken in 2022. The objective for the EU is also to capitalise on the experience and activities of European national development banks such as AFD and KfW, which already have a strong presence in the field and dedicated programmes for more vulnerable countries and populations. Third, as mentioned above, greater cooperation becomes a central theme for financial institutions, which have often been mainly competitors and at times rivals. Competition can be a useful drive to innovate and diversify the development offer. But by developing their respective comparative advantages, European financial institutions for development can also enhance their complementarities and synergies. EU leaders have notably called for greater cooperation between the EIB and the EBRD, which have recently announced their agreement to deepen their cooperation outside the EU (EIB, 2021b). The EBRD and EDFI have also pledged to intensify their cooperation (EBRD, 2021).

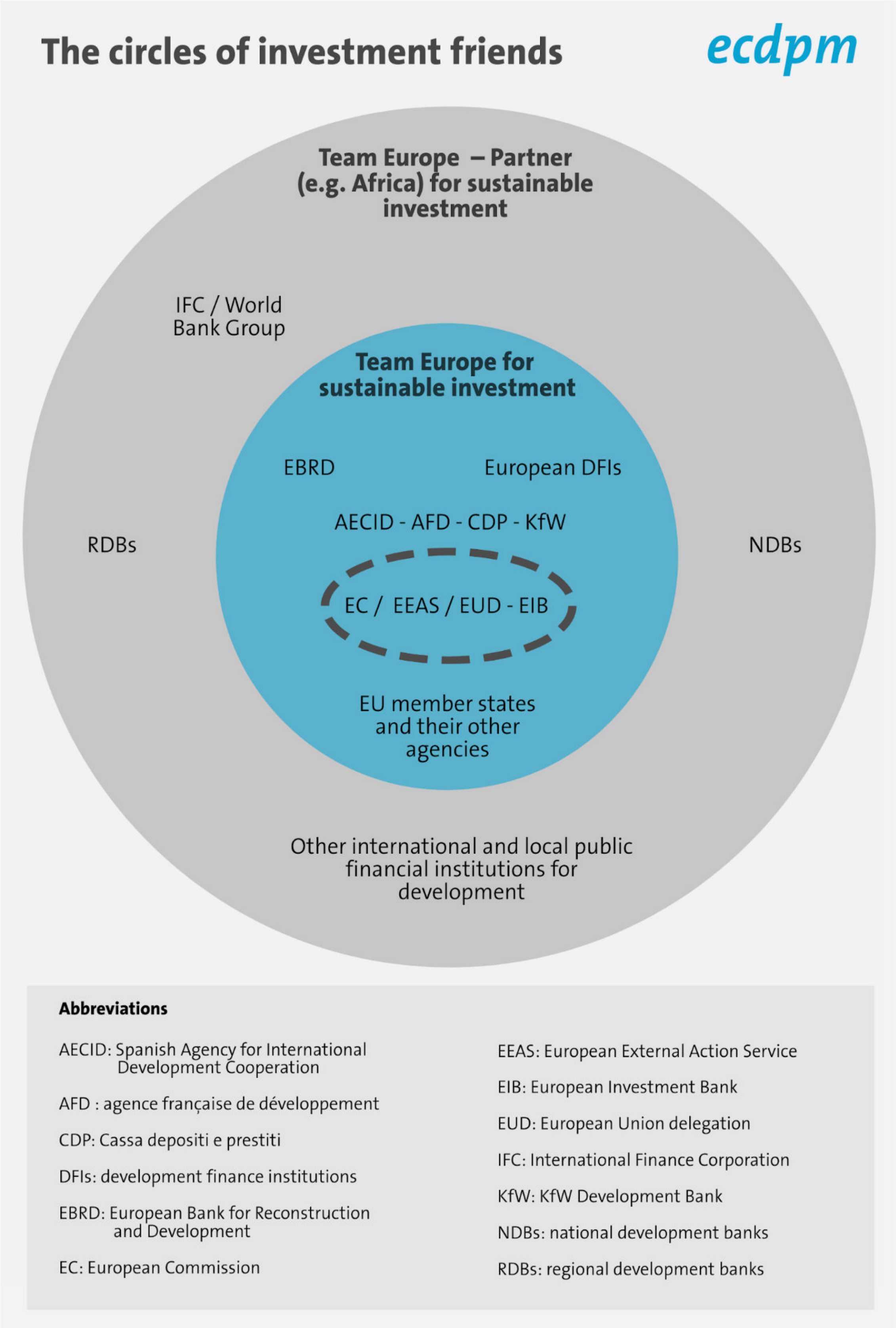
Overall, the evolution of the EFAD has put European PDBs at the heart of the European development finance system in a more integrated and coordinated way. By doing so, European PDBs can reach out, under the EU banner, to external partners. Figure 3 illustrates the new framework that is put in place.

Figure 3. Emerging EFAD framework

Policy guidance and resource frameworks	Global Europe (NDICI)	EU Member States development cooperation
	Team Europe (Initiatives)	
Modalities	(Blended) finance, guarantees, financial and technical assistance	Policy dialogue
EU instruments	European Fund for Sustainable Development (EFSD+) & grants	External Action Guarantee (EAG)
Actors	EIB	EBRD
	European national development banks	DFIs (EDFI members)
	Donors	other MDBs / PDBs

Source: the author.

Figure 4. PDBs in the Team Europe framework



Source: ECDPM.

In this new European context it is clear that EU Member States with a national development bank can have a greater leverage in terms of development impact with EU instruments and other European partners as well as in terms of political clout in the new EU financial architecture for development.

This greater clout and visibility of European PDBs also seems to have been directly translated into the international scene. The example of the Finance in Common initiative seems highly illustrative. It builds on the successful experience of the International Development Finance Club, set up at the initiative of AFD in 2011, and chaired by the AFD CEO, which brings together 26 national and regional PDBs. In 2020 AFD decided to organise the first global summit of all PDBs in the world (over 500 by now), the Finance in Common Summit, which emphasises the crucial role of PDBs in sustainable and green development and in the COVID-19 short-term and longer-term responses. AFD clearly took centre stage in this effort, *de facto* extending its vision and influence globally. Perhaps even more revealing is the Second Finance in Common Summit in 2021, which was co-organised by CDP, together with the International Fund for Agricultural Development (IFAD). This gave the Italian PDB –with the new international role of CDP– high visibility and influence. Combined with the Italian G20 Presidency in 2021 it also further increased its political clout and leverage despite being a relatively small international PDB, as discussed below in Section (3.3).

(4) An overview of three European national development banks: AFD, KfW and CDP

(4.1) The French PDB: AFD

The *Agence française de développement* (AFD), as we currently know it, was set up in 1998. But its origins date back to World War II with the creation in 1941 of the Central Fund for Free France (*Caisse Centrale de la France Libre*, CCFL) by General Charles De Gaulle, then in London. Its single focus on activities outside Metropolitan France was decided in 1944 after its move to Algiers and its transformation into the Central Fund for French Overseas Territories (*Caisse Centrale de la France d'Outre-mer*, CCFOM). Following further institutional changes and a new name, the then Central Fund for Economic Cooperation (*Caisse Centrale de Coopération Économique*, CCCE), expanded its geographical scope outside French territories in 1975.

AFD is mandated by the French government to be the main operator of France's development cooperation. It provides support to public, private and civil society actors in developing and emerging countries, as well as in the French overseas territories, in various forms, mainly (concessional) loans, but also blended finance, bond issuance, grants, technical assistance and knowledge generation.

Under French law, AFD is a credit institution with the status of a Public Industrial and Commercial Undertaking (EPIC in French). AFD is also supervised by the European Central Bank after having been granted the status of a financial institution in 2017.

The strategic orientations of the AFD are determined by the planning law for development, the last being adopted in August 2021 (*Loi du 4 août 2021 de* *programmation relatif au développement solidaire et à la lutte contre les inégalités mondiales*).

AFD is under the direct supervision of the interministerial committee for international cooperation and development (*Comité interministériel de la coopération internationale et du développement*, CICID). Under the guidance of the Prime Minister, the CICID brings together the Ministries of Foreign Affairs, the Economy and Finances, Budget, Interior, National Education, Army, Environment, Overseas and any other interested ministers. It is led by a secretariat co-managed by the Ministry of European and Foreign Affairs and the Ministry of the Economy and Finances. These two Ministries, together with the Overseas Ministry, are also members of the AFD Board.

The AFD Group includes AFD, the French PDB, which conducts sovereign operations and provides grants, and Proparco, the French DFI, which is a subsidiary of AFD focused on private-sector development. Expertise France, the French public international cooperation agency, which conducts international technical cooperation projects, is a close partner of AFD and is soon due to integrate the AFD Group.

Currently, the AFD Group conducts operations in 115 countries, which indicates its broad geographical scope. Over a third of its operations in volume are conducted in Africa (36% in 2020) and one-sixth (16.5%) in Latin America. In 2020, out of the €12.1 billion commitments of the AFD Group, Proparco has €2 billion in commitments, and Expertise France has a turnover of €237 million (AFD, 2021).

The main objective of AFD is the promotion of green and sustainable development in developing countries. By its strategic approach, large portfolio, wide local presence, strong networks (at the local, national, regional and multilateral levels), critical generation of knowledge and know-how, and extensive communication outreach, the AFD is part and parcel of the French instruments devoted to promoting France's diplomatic influence and interests (French Senate, 2011).[3] For instance, AFD has taken a leading role in some key development issues, in particular as regards climate and biodiversity, Paris alignment and SDG alignment. AFD has also been instrumental in setting up the International Development Finance Club (IDFC) and the Finance in Common initiative, establishing a strong cooperation with other public development banks and thereby leveraging French influence on development approaches and on the role and approaches of the PDBs. The local presence of AFD in the five continents, with 85 local offices and 2,650 employees, is another asset of the AFD Group. It is *de facto* a local arm of French influence around the world. It is also an asset for its European influence, as acknowledged by the Feasibility study on the future of the EFAD (Particip and Lion's Head Global Partners, 2021). AFD is a main actor in the European External Investment Plan, cooperating extensively with the EIB, EBRD and KfW. It is at the forefront of the newly established 'Enhanced Partnership' with other European NDBs, and it has been a

[3] 'For the Ministry of Foreign Affairs, the agency [AFD] is also a tool for a policy of influence that makes it possible, on the one hand, to foster bilateral relations with countries that correspond to France's diplomatic and geostrategic priorities and, on the other hand, to establish the credibility of France's vision of globalization, development and the fight against global warming' (own translation from French Senate, 2011, III.C, p.33).

founding member of the Interact Climate Change Facility (ICCF) together with the EIB and some EDFI members.

(4.2) The German PDB: KfW

Initially the *Kreditanstalt für Wiederaufbau* (KfW) was set up in 1948 as a public financial institution for the reconstruction of the Federal Republic of Germany. During the 1950s KfW started providing longer-term export financing to key businesses and SMEs in Germany. And, in 1958, it provided its first loans to Iceland, Sudan and India, before being given a formal mandate in 1961 to finance development cooperation and commercial projects abroad. While KfW played a critical role in the reconstruction of East Germany following the reunification of Germany in 1990, it also increased its activities abroad, in particular in Central and Eastern European countries and the former republics of the USSR.

An interesting institutional evolution of KfW took place during the 2020s, with the formation of the KfW Group, which includes the German DFI, DEG (*Deutsche Investitions und Entwicklungsgesellschaft*) and the export and project finance related to German (or European) exports, KfW IPEX-Bank (International Project and Exportfinanzing Bank). In 1998 the German government started assuming a legal liability for loans provided by KfW. However, part of the KfW's activities included commercial finance, including export finance. The European Commission challenged this arrangement, as institutional liability and guarantees to KfW could be perceived as state-aid distorting competition, which led in 2002 to the restructuring of KfW, separating the promotional activities of KfW from its commercial activities, in different entities. As of 2008, export financing projects are solely conducted under the KfW IPEX Bank. KfW also took full control of DEG in 2001, as its subsidiary. KfW's activities as a development bank are also revamped, away from large-scale strategic projects towards a focus on sustainable development, including issues such as climate change, healthcare and building financial markets.

The KfW currently comprises several entities: the KfW Development Bank (KfW Entwicklungsbank) and the DEG are its two development-oriented arms. With commitments of €12.4 billion in 2020, they account for around 9% of the volume of the KfW's activities. The KfW INPEX Bank for export and project finance has an international dimension as well, though not directly related to development. The bulk of KfW activities (around 80%) are carried out in Germany through its domestic-focused entities. These are KfW Förderbank (KfW promotional Bank), focusing mainly on housing, environmental protection and municipal infrastructures, and the KfW Mittelstandsbank for the domestic promotion of SMEs.

KfW is a public entity jointly owned by the Federal Republic of Germany (80%) and the States of Germany (20%). It is under the supervision of the Federal Ministry of Finance, in consultation with the Federal Ministry for Economic Affairs and Energy. For its development activities, KfW Development Bank finance operates primarily on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). KfW is also a financial institution supervised by the European Central Bank.

As in France, where Proparco is part of AFD, DEG is a subsidiary of KfW, which ensures a close institutional connection and cooperation between KfW Development Bank and DEG, its private sector arm.

Contrary to AFD, the KfW Development Bank does not provide development cooperation in the form of grants, besides some specific technical assistance. Development cooperation is led and financed by the Federal Ministry for Economic Cooperation and Development (BMZ), through its development cooperation agency *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ). In practice there is often a close (though probably still insufficient) cooperation and synergy between BMZ, KfW/DEG and GIZ. This can be very instrumental at the country and local level, ensuring the complementarity of German financing institutions for development cooperation.

Africa is the major geographical focus of the KfW Development Bank. In 2020 35% of its total €11 billion commitments were in Africa, with 26% in Asia, 12% in Latin America and 12% in the and Middle East.[4] The KfW finances and promotes reforms in key sectors such as water supply, energy, financial system development, health and education. It also has a strong local presence, with more than 60 offices across the world.

KfW is an established major development actor with a strong reputation, which has helped advance Germany's international standing and interests internationally. KfW has been a pioneer in environmental protection and innovation, making it a key actor in climate change finance. It has managed to establish a strong network in many countries, and plays an important part in Germany's international relations and global image. It has been able to build on its strong expertise and capacity at the domestic level, helping to promote German interests and added value abroad. It has allowed Germany to take the lead in some international development efforts. This is the case for instance with the G20 Compact with Africa, under the G20 German presidency in 2017. The German Marshal Plan with Africa, with the backing of KfW for development finance, has also helped to advance German strategic objectives, interests and reputation in Africa. By establishing cooperation with national and regional development banks in developing countries and contributing to their institutional development, reform, strengthening and financing, KfW has also positioned itself as a major point of reference among PDBs and a reliable actor supporting local transformation.

At the EU level, KfW is also a major actor. Within the EU, this has particularly been the case since 2014 with the European Fund for Strategic Investments (EFSI), commonly referred to as the Juncker Plan, where KfW was one of the main actors after the EIB. On the European financial architecture for development, KfW has undertaken many blended finance activities through EU funding and has benefited from European guarantees under the European Fund for Sustainable Development. KfW has also established strong cooperation with the EIB, EBRD and with other European national development banks (AFD, CDP) as well as with EACID. Similarly, DEG is one of the major European DFIs, a key member of EDFI (whose current chairperson is the former CEO of DEG), and thus a key actor for the European development finance system.

[4] KfW Development Bank in 2020

In doing so, KfW not only effectively contributes to promoting development objectives and now a green recovery in developing countries, but it also significantly contributes to promoting German development and strategic priorities. It has become a *de facto* important pillar of German foreign policy and economic diplomacy.

(4.3) The Italian PDB: CDP

The *Cassa Depositi e Prestiti* (CDP) is a very old public finance institution, established in 1850 by the Republic of Sardinia and restructured in 1863 after the unification of Italy, to manage the deposits from citizens through post offices (ie, postal savings). In 2016 after significant internal reforms to become a more market-oriented public promotional development bank, it expanded its mandate to international development cooperation and became the new kid on the block among the European PDBs. As the Italian Development Bank, it can build on its internal expertise as a PDBI but needs to establish its credentials internationally.

CDP's main shareholder is the Italian Ministry of Economy and Finance, which controls 83% of its share capital, while various banking foundations own another 16% of its shares. A Parliamentary Supervisory Committee also controls some of its activities.

CDP's international activities have become an integral part of Italy's development cooperation, following objectives defined in three-year programming documents. The political direction is given by the Ministry of Foreign Affairs and International Cooperation, while the economic responsibility lies with the Ministry of Economy and Finance. CDP also works together with the Italian Agency for Development Cooperation (AICS), which provides grants and technical cooperation. CDP's international activities also benefit from Italy's export credit agency, SACE, which is part of the CDP Group.[5]

The main sectors of CDP's international development operations are green energy and climate change, sustainable agriculture and food security, and financial inclusion, and MSME access to finance.

The international development cooperation operations of the CDP remain small –even marginal– when compared with CDP's activities in Italy or compared with the AFD and KfW. With only €370 million of commitments in 2020, they account for less than 1% of the total volume of CDP activities, at €38,585 billion. Yet they still provide CDP with a useful international platform at the EU level and on the global scene. CDP participates in the EFSD and benefits from European guarantees and has become a vocal member of the European financial architecture for development. CDP has a strong alliance with AECID, AFD and KfW. It also gives Italy a standing among PDBs worldwide. Building on the dynamics of its current Presidency of the G20, CDP is the co-organiser with the International Fund for Agricultural Development (IFAD) of the second Finance in Common Summit in October. CDP's international positioning also benefits from its new dynamic image and high standing as a major national promotional development bank on the European scene.

[5] However, SACE could soon be transferred to the Italian Treasury. See Reuters (2021), 'Italian state lender approves sale of export agency SACE to Treasury', 5/III/2021.

While still in its infancy, CDP's international development cooperation therefore also serves Italy's development objectives and strategic orientations and interests in terms of foreign and economic diplomacy.

(5) Conclusion

PDBs have taken centre stage in development narratives and endeavours at the international level and in Europe, including in the response to the COVID-19 pandemic and climate change challenges. At the European level, France's AFD, Germany's KfW and more recently Italy's CDP are the three main national PDBs, while the EIB is the EU development bank and the EBRD, controlled in a majority by EU Member States, is also a major actor among European PDBs. This is complemented by an array of European DFIs, accounting for around half of Europe's development finance for private sector investments (Wieser *et al*., 2019), as well as NPBIs, operating almost exclusively within Europe.

The post-Cold War era and the Asian financial crisis of the 1990s, the rise of China and other emerging economies in the 2000s, the global financial and economic crisis of 2008, the UN 2030 Agenda on Sustainable Development and the Paris Agreement on Climate in 2015, and now the COVID-19 pandemic and resulting crisis, have each contributed to raising the profile of PDBs and more generally development finance. This is the case in terms of scale –mobilising more public and private finance for development–, but also in terms of quality, as regards climate and SDG alignment, being more inclusive, gender-sensitive, poverty-focused, fragile and conflict sensitive, and transformational, notably towards the creation of more and better jobs.

Europe has been very active in harnessing the potential of its public banks and financial institutions, both within and outside the EU, with the increasing use of blended finance and guarantees over the last decade and an increasing focus on strengthening Europe's financial architecture for development (EFAD). This has been guided by the desire to adopt a more comprehensive and integrated approach by the EU to stimulate more sustainable and impactful investments and the ambition of opening up EU guarantees to financial institutions for development beyond the EIB.

This new EFAD setting has four major consequences:

(1) It puts the EU, and in particular the European Commission, at the heart of the EU's finance for development.
(2) European PDBs have become more prominent in the EFAD, due to their size, experience and political clout.
(3) The coordination among European financial institutions for development has become more important and thus been significantly strengthened.
(4) European national PDBs are also increasingly enhancing their long-standing cooperation, most recently with the AECID, AFD, CDP and KfW Joint Declaration on a European Strategic Cooperation Framework, as part of the 'Enhanced Partnership' with the EU.

The focus on the cooperation dimension has been reinforced by the recent EFAD discussions and the 'Team Europe' approach adopted by the EU. The role of the EIB, and to some extent also the EBRD, has also been further heightened in the EFAD. It is guided by three core objectives:

(1) The EU wants to steer a more strategic engagement of PDBs, reflecting EU priorities, interests and values, captured under the 'policy first' guiding principle.

(2) PDBs and DFIs should bolster their development impact in a greener, more sustainable, more inclusive and more gender-sensitive way.

(3) Greater cooperation becomes a central theme for financial institutions, under the more visible EU banner 'Team Europe'.

Interestingly, beyond development objectives, public development banks are also an instrument of development and economic diplomacy, as well as geostrategic power, promoting core values and interests, as part of the European foreign and economic policies at the EU and national levels, as illustrated with the case of France, Germany and Italy.

While each PDB in Europe is the result of a specific historical and institutional context, they all tend to have greater prominence in national and EU development and foreign policy objectives over the years. Mechanisms are also established to enhance their coordination at the European level, within the EU framework and among themselves. Their integration into broader public endeavours towards development cooperation and private sector support are also key. While the specific institutional set-ups might differ, the European PDBs all have strong links with development and technical assistance agencies, as well as trade and export finance institutions. Most importantly, they are all mandated and guided by, and accountable to, their political masters, whose strategic directions, political priorities and empowering means are essential for the PDBs to more effectively fulfil their ambitions.

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