

HEADING 4: Global Europe**European Fund for Sustainable Development (EFSD)**

Lead DG: DEVCO

I. Overview***What the programme is about?***

In the framework of the External Investment Plan (EIP), the European Commission has established the European Fund for Sustainable Development (EFSD) ⁽¹⁾ to support investments in Africa and the Neighbourhood. The overall aim of the EFSD is to contribute to the goals of the United Nations 2030 Agenda for Sustainable Development, in particular poverty eradication, as well as to the commitments under the recently revised European Neighbourhood Policy. By supporting investments in Africa and the Neighbourhood, the EFSD also aims to address specific socioeconomic root causes of migration, including irregular migration, and to contribute to the sustainable reintegration of migrants returning to their countries of origin and to the strengthening of transit and host communities.

The EFSD is managed by the European Commission and implemented through two Regional Investment Platform (i.e. the African Investment Platform, AIP, and the Neighbourhood Investment Platform, NIP), which combine financing from the existing external blending facilities for Africa and the Neighbourhood with a newly developed EFSD Guarantee. This will enable using scarce public resources in an innovative way to mobilise public and private investment, thereby creating growth and employment opportunities, maximising additionality, delivering innovative products and crowding-in private sector funds.

Under the newly established EFSD Guarantee, the Commission will provide partial guarantees to eligible counterparts, which in turn will provide support to downstream beneficiaries through a wide range of financial instruments, including loans, guarantees, counter-guarantees, capital market instruments and other forms of credit enhancement, insurance, equity or quasi-equity participations. The EFSD Guarantee will cover portfolios of investments to be implemented by eligible counterparts in targeted areas, so-called Investment Windows. A first set of Investment Windows ⁽²⁾ include: sustainable energy and connectivity; micro, small and medium-sized enterprises (MSMEs) financing; sustainable agriculture, rural development and agribusiness; sustainable cities; digital for development.

Investment under the EFSD will be guided by development and sector policies of the beneficiary, and will help foster an enabling environment (governance, legislation and regulations) through the support provided under pillars 2 (Technical Assistance) and 3 (enabling the business environment) of the EIP.

EU added value of the programme

The EFSD is a bold new approach to support sustainable and innovative investment, going beyond the classical development assistance and building on the experience of existing blending facilities to maximise additionality, deliver innovative products and catalyse private sector investment. The new EFSD Guarantee, in particular, has been conceived as a powerful financial tool to stimulate and support investments in less developed and riskier countries whilst crowding in private sector players in areas and sectors in which they do not traditionally intervene. The EUR 1.5 billion EFSD guarantee plus the EUR 2.6 billion of the Africa and Neighbourhood Investment Platforms mobilised from existing cooperation instruments are expected to unlock private investment and mobilise an additional EUR 44 billion investment until 2020. The multiplying effect and the impact on the ground will thus be much higher than what could be achieved by an investment programme from individual Member States.

The operations financed or guaranteed through the EFSD represent a highly visible and effective tool in support of the Union's external action. In addition, by enabling joint operations – combining bilateral and EU grant funding with eligible finance institutions operations – the EFSD will generate greater coherence and better coordination between donors, in line with the Paris Declaration's principles on aid effectiveness. The pooling of Member States' resources will reinforce the EU's overall effort, while co-financing with non-EU financial institutions will further improve donor coordination and harmonisation.

Implementation mode

The EFSD Guarantee is to be implemented by eligible counterparts in indirect management mode following the established procedures within the blending framework. In line with Article 11 of the EFSD Regulation, eligible counterparts include a broad range of actors, both of public and private nature. These must undergo a 'pillar assessment' to verify that they have procedures which are as equally robust as those of the European Commission and can therefore be entrusted with budget implementation tasks. At present, pillar-assessed eligible counterparts for the Guarantee include: financial institutions such as the European Investment Bank and the European Bank for Reconstruction and Development; bilateral development banks in the Member States, such as Agence française de développement, Kreditanstalt für Wiederaufbau, Cassa Depositi e Prestiti, Agencia Española de Cooperación

⁽¹⁾ Regulation (EU) No 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund

⁽²⁾ Commission Decision C(2017) 7899 of 23 November 2017 on the establishment of the Investment Windows of the EFSD Guarantee.

Internacional para el Desarrollo; European development finance institutions (EDFIs), such as France's Proparco, Dutch Development Bank – FMO, Germany's Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Spain's COFIDES (Compañía Española de Financiación del Desarrollo); and other regional and multilateral development banks, such as the African Development Bank and the World Bank Group. In the absence of a 'pillar assessment', private entities are currently not having direct access to the EFSD Guarantee.

II. Programme Update

Implementation status (2017-2019)

The entire available budget of EUR 1.54 billion for the EFSD Guarantee was allocated in 2018 to 28 selected proposals. Until end 2019, the Commission signed four guarantee agreements with its partner financial institutions. Three additional guarantee agreements were signed on 22 January 2020, taking the total to seven, for an amount of EUR 361 million. More details are provided in the below section on 'Key achievements'.

In addition, since 2017, the Commission approved almost EUR 3.1 billion for 154 blending operations, of which EUR 1.8 billion for 78 projects in Sub-Saharan Africa and EUR 1.3 billion for 76 projects in the EU Neighbourhood. These operations target a variety of sectors, the main ones being transport, energy, private sector development and agriculture.

Overall, programmes and projects validated by the EFSD governance by the end of 2019 are expected to mobilise around EUR 47 billion of investments, thus exceeding the EU's target of unlocking EUR 44 billion initially planned for one year later, 2020.

Key achievements

On 23 November 2017 the Commission established a first set of Investment Windows for the EFSD Guarantee, which were subsequently endorsed by the EFSD Strategic and Operational Boards. These cover five areas, namely: Sustainable Energy and Connectivity; Micro, Small and Medium Sized Enterprises (MSME) Financing; Sustainable Agriculture, Rural Entrepreneurs and Agribusiness; Sustainable Cities; and Digital for Development.

Following the establishment of the Investment Windows, partner financial institutions were invited to propose investment programmes to be covered by the EFSD Guarantee. The response by the financial institutions was very positive: the Commission received 46 proposals from 12 partner institutions for a total value above EUR 3.5 billion, thus exceeding the current entire capacity of the EFSD Guarantee by over EUR 2 billion.

On 20 June 2018, the EFSD Operational Board involving the EU Member States gave its green light to a first set of twelve guarantee tools to be supported under the EFSD, accounting for approximately EUR 800 million. Sixteen additional guarantee tools were approved by the EFSD Operational Board on 13 November, thus exhausting the present capacity of the EFSD Guarantee (i.e. EUR 1.54 billion until 2020). Taken together, these guarantee tools are expected to trigger estimated investments of EUR 17.5 billion, out of which almost EUR 11 billion are to be invested by the private sector.

During the course of 2019, the Commission signed four guarantee agreements worth 195 million:

FMO's NASIRA Guarantee Facility, for an amount of EUR 75 million, aiming to provide access to affordable loans to women, youth, and migrant entrepreneurs.

CDP and AfDB's Archipelagos Guarantee Agreement, for an amount of EUR 30 million, aiming to provide access to finance across Africa for high potential small businesses by piloting capital market solutions.

FMO's Ventures Programme Guarantee Agreement, for an amount of EUR 40 million, it will guarantee venture capital provided by FMO to start-up companies, in particular led by young entrepreneurs in the digital space.

EBRD's Framework to Scale-up Renewable Energy Investments, for an amount of EUR 50 million, aiming to scale up renewable energy investments in Neighbourhood countries, in order to increase energy generation from renewable energy sources and assist in the implementation of Paris Agreement climate goals.

Three additional guarantee agreements were signed on 22 January 2020 worth EUR 166 million:

AECID and World Bank Group's Resilient City Development (RECIDE), for an amount of EUR 100 million, aiming to help African cities develop public-private partnerships to cope with the effects of climate change and improve services to the citizens.

KfW's African Energy Guarantee Facility 'AEGF', for an amount of EUR 46 million, aiming to contribute to the promotion of renewable energy solutions to meet growing demand, address bottlenecks to private investments and bridge the gap between real and perceived risks in the African energy market.

EIB's SME Access to Finance Guarantee Agreement, amounting to EUR 20 million, aiming to enhance access to finance to SMEs and enable financial intermediaries to take on more risk and reach out to underserved segments of the economy.

Evaluations/studies conducted

The ex-ante assessment of the EFSD recognised the role of the Guarantee as a complementary tool to the grant and blending facilities already provided by the EU. It supported the implementation of the EFSD Guarantee through a number of eligible lead

partners, under a framework similar to the blending investment facilities. It also encouraged the involvement of new private sector lead partners, including local and international financial institutions, as well as insurance and re-insurance companies and investments funds (although the latter might require further study as to their potential for leveraging the guarantees and market distortion).

Despite the early stage of implementation of the EFSD Guarantee, the Commission is preparing an implementation report covering the whole EFSD, i.e. the blending facilities, the EFSD Guarantee and its Guarantee Fund, in line with the Article 17 of the EFSD Regulation. In this context, an independent external study has reviewed the initial functioning of the EFSD in terms of effectiveness, efficiency, relevance coherence and its value added. Its findings be the basis for the Commission's implementation report.

Forthcoming implementation

The remaining guarantee agreements are expected to be signed during the course of 2020. The financial institutions will subsequently have four years to conclude agreements for underlying operations with co-financing partners, financial intermediaries or final beneficiaries. As a rule, the duration of the guarantees extended to the financial institutions should not exceed fifteen years.

Outlook for the 2021-2027 period

On 14 June 2018, the European Commission presented the proposal for a Regulation of the European Parliament and of the Council, establishing the Neighbourhood, Development and International Cooperation Instrument, COM(2018)460 final. This proposal aims includes the financing the new European Fund for sustainable Development Plus (EFSD +), building on the actions currently supported under the EFSD.

III. Programme key facts and performance framework

1. Financial programming

Legal Basis	Period of application	Reference Amount (EUR million)
Regulation (EU) 2017/1601 of the European Parliament and of the Council establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund	2017-2020	350,0

	Financial Programming (EUR million)							
	2014	2015	2016	2017	2018	2019	2020	Total Programme
Operational appropriations				275,0	25,0	25,0	25,0	350,0
Total				275,0	25,0	25,0	25,0	350,0

2. Implementation rates

	2019				2020			
	CA	Impl. Rate	PA	Impl. Rate	CA	Impl. Rate	PA	Impl. Rate
Voted appropriations	25,000	100,00 %	25,000	100,00 %	25,000	0,00 %	25,000	0,00 %
Authorised appropriations (*)	154,489	61,23 %	479,089	67,84 %	84,889	0,00 %	179,089	27,92 %

(*) Authorised appropriations include voted appropriations, appropriations originating from assigned revenues (internal and external) as well as carried-over and reconstituted appropriations; the execution rate is calculated on 15 April 2020

3. Performance information

Programme performance

With the ambitious development goals set for the EIP and through the EFSD in particular, the Commission shall be able to monitor and evaluate the direct contribution (output level) and the direct (outcome) and indirect, medium-long term influence (impact) of operations supported by the EFSD against the main objectives of the initiative.

The contribution of the EFSD to sustainable and inclusive growth in partner countries will be measured against the objectives set by the EFSD Regulation with a series of outcome and impact indicators in relation to:

- Contribution to the achievement of Sustainable Development Goals
- Generation of sustainable and inclusive growth
- Creation of decent jobs
- Promoting gender equality and the empowerment of women and young people
- Positively impact on climate change

- Contributing to poverty eradication
- Addressing root causes of (irregular) migration, fostering sustainable reintegration of migrants returning to their countries of origin, and strengthening transit and host communities.

The Commission established a Results Measurement Framework for the EFSD pending agreement with its partner financial institutions. This is being already utilised in the guarantee agreements signed to date. It covers three levels: (1) the EFSD as a whole, including both the EFSD Guarantee and the blending operations; (2) the Investment Platforms and Investment Windows; (3) the investment programmes under the EFSD Guarantee and the projects under the blending operations. The Commission is responsible for monitoring and reporting under the first two levels, based on a set of pre-defined indicators. At programme and project level, the reporting on expected and actual operational results is the responsibility of the lead financial institution. The list of indicators, the frequency and format of reporting are part of the guarantee agreements signed with the financial institutions.

Based on the information provided by the financial institutions in their proposals, the 28 guarantee tools approved to date by the EFSD governance are expected to contribute to the creation of close to 4 million jobs. They should also contribute to reducing carbon emissions by 6000 kT / year and generate 4+ GW, particularly in renewable energy.

General objectives

General Objective 1: The EFSD shall contribute to the achievement of the Sustainable Development Goals of the 2030 Agenda with a particular focus on sustainable growth, job creation, socioeconomic sectors and on the support to micro, small and medium sized enterprises, thus addressing root causes of migration and contributing to sustainable reintegration of returned migrants in their countries of origin while maximising additionality, delivering innovative products and crowding in private sector funds.

Specific objectives

Specific Objective 1: The purpose of the EFSD as an integrated financial package shall be to support through the supply of financing capacity in the form of grants, guarantees and other financial instruments to eligible counterparts investments and increased access to financing starting in African and Neighbourhood partner countries.

Expenditure related outputs

Outputs	Budget line	Budget 2020
		EUR million
Provisioning of the EFSD Guarantee Fund	01 03 08	25

In addition, a contribution of EUR 50 million from the European Development Fund in the form of assigned revenue is foreseen in 2020.

Contribution to mainstreaming of climate action

Relevant objective/output

Relevant objective/output	Budget 2019	Budget 2020
Contribute to achieving sustainable development in the partner countries in a coherent and consistent manner	9,8	9,8
Total	9,8	9,8

Programming climate action

2014	2018-2019 estimates		2020 programming	Total
	2018	2019	2020	
107,3	9,8	9,8	9,8	136,7

Mainstreaming of climate action

In order to fulfil the political commitments of the EU on climate action, renewable energy and resource efficiency, a minimum share of 28 % of the funding allocated under the EFSD should be devoted to financing and investment operations relevant for these sectors.

It is estimated that the climate-related contribution of the EFSD Guarantee will reach a minimum 39 % of the total guarantee amount, considering only the current allocation for the Sustainable Energy and Connectivity Window. This contribution will be further increased by projects from other windows that are also expected to have significant climate change mitigation and

adaptation objectives.

The calculation is based on the share of climate change related expenditure estimated to reach, at minimum, 39 % of the allocations from previous years. The actual amounts will be calculated once the guarantee agreements will be signed and implemented.

The following guarantee tools have a specific climate focus:

- **Resilient City Development (RECIDE)** amounts to **EUR 100 million** and it is a partnership with the **Agencia Española de Cooperación Internacional para el Desarrollo (AECID)** and the **World Bank Group (WBG)**. This guarantee will help cities develop public-private partnerships to strengthen their resilience to climate change and improve public services to their citizens.
- The **Framework to Scale-up Renewable Energy Investments** amounts to **EUR 50 million** and it's a partnership with the European Bank for Reconstruction and Development (**EBRD**). The guarantee will help to generate total investment of up to EUR 500 million in the EU Neighbourhood, including in Ukraine, Lebanon, Tunisia and Jordan, in order to increase energy generation from renewable energy sources and assist in the implementation of Paris Agreement climate goals.

Gender mainstreaming

In the framework of the EIP, the EFSD will support the promotion of gender equality and the empowerment of women and young people.

The following guarantee tools approved by the EFSD governance to date have a specific gender focus:

- **NASIRA Risk-Sharing Facility:** Women are one of the target beneficiaries of the NASIRA programme, which aims to address the high risks involved in lending to under-served entrepreneurs in countries neighbouring the EU and in Sub-Saharan Africa. It will give them access to investment loans by offering local financial institutions, such as banks and microfinance institutions, portfolio guarantees containing loans to entrepreneurs. The EU contributes to this project led by Dutch Development Bank (FMO) by extending a guarantee of up to EUR 75 million.
- **Social Impact Fund for Africa (SIFA):** While focussing on projects that involve in particular women and young people of low incomes, SIFA will lower the current barriers to investment in, and increase the capital available for, more than 200 businesses engaged in digital innovation. It will do so by enabling investors to share the risks involved, and/or by lowering such risks considerably. The EU contributes to this project led by AfDB by extending a guarantee of up to EUR 25 million.

5. Programme contribution to the Sustainable Development Goals

As provided by Article 3 of the EFSD Regulation, the purpose of the EFSD is to contribute to the achievement of the Sustainable Development Goals, in particular SDG 1 (poverty eradication), thus addressing specific socioeconomic root causes of migration and fostering sustainable reintegration of migrants returning to their countries of origin, and strengthening transit and host communities.

In particular, the financing and investment operations eligible for support through the EFSD shall contribute, inter alia, to fostering sustainable development in its economic, social and environmental dimensions, with a particular focus on inclusive and sustainable growth, decent job creation, skills and entrepreneurship, gender equality and the empowerment of women and young people, socioeconomic sectors and on the support to micro, small and medium sized enterprises.

Because of its breadth, the EFSD can thus contribute to a broad range of SDGs, often in an interlinked manner and with co-benefits across goals. In this context, the EFSD is particularly relevant for SDG 7 (affordable and clean energy), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation and infrastructure), SDG 11 (sustainable cities) and SDG 13 (climate action).

The guarantees approved to date will increase access to finance to small businesses and local under-served entrepreneurs in Sub-Saharan Africa and in the EU Neighbourhood, including internally displaced people, refugees, returnees, women and young people, thus contributing to job creation and sustainable economic growth. They will also boost the supply of renewable energy and improve investment in urban infrastructure and services, thus improving the resilience of communities in Sub-Saharan Africa and the EU Neighbourhood to growing populations and the effects of climate change.