SUSTAINABLE DEVELOPMENT

EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT

What is the European Fund for Sustainable Development?

Within the framework of the external investment plan, the European Fund for Sustainable Development (EFSD) supports investment in Africa and in the EU’s neighbourhood. This initiative was inspired by the investment plan for Europe, launched in 2015.

The EFSD is the first pillar of the external investment plan, which also aims to enhance technical assistance in partner countries (pillar 2) and to improve the investment climate and overall policy environment in those countries (pillar 3).

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, and the commitments under the recently revised European neighbourhood policy. By supporting investment in Africa and the EU’s neighbourhood, the fund also aims to address specific socioeconomic root causes of migration, including irregular migration. In addition, it contributes to the sustainable reintegration of migrants voluntarily returning to their countries of origin and to the strengthening of transit and host communities. The fund aims to foster the creation of decent jobs, economic opportunities and entrepreneurship, along with green and inclusive growth, with a particular focus on gender equality and the empowerment of women and young people.

Why is it necessary?

The EFSD is a bold new approach to supporting sustainable and innovative investment, going beyond classical development assistance and building on the experience of existing blending facilities to maximise additionality, deliver innovative products and catalyse private-sector investment. It encourages private investors to contribute to sustainable development in countries outside of Europe. The fund aims to:

- contribute to achieving sustainable development in the partner countries in a coherent and consistent manner;
- target socioeconomic sectors, in particular sustainable infrastructure (including energy, water, transport, information and communications technology, the environment, social infrastructure and human capital), and provide finance for micro, small and medium-sized enterprises, with a particular focus on the creation of decent jobs;
- assist in developing economically and financially viable projects to attract investment;
- help to improve the business environment in partner countries by supporting reforms and economic governance;
- contribute to addressing the root causes of irregular migration and strengthen the EU’s partnerships in Africa and the neighbourhood countries.

Outlook for the 2021–2027 period

To streamline the existing instruments for EU external actions, under the new multiannual financial framework this instrument will be included in the Neighbourhood, Development and International Cooperation Instrument.

Budget implementation (in million EUR)

<table>
<thead>
<tr>
<th>IMPLEMENTED COMMITMENTS</th>
<th>IMPLEMENTED PAYMENTS</th>
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<tbody>
<tr>
<td>25.0</td>
<td>2018</td>
</tr>
<tr>
<td>25.0</td>
<td>2019</td>
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<tr>
<td>25.0</td>
<td>2020</td>
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How is it implemented?

The Directorate-General for International Partnerships is the lead DG for the implementation of the programme through regional investment platforms.
Where are we in the implementation?

- Pursuant to Article 8 of the EFSD regulation, the investment period, during which guarantee agreements for supporting investment programmes could be concluded with the eligible counterparts, lasted until 31 December 2020. As of that date, the Commission had exhausted the present capacity of the EFSD Guarantee by signing 18 guarantee agreements worth EUR 1.487 million, exceeding the initial EFSD Guarantee capacity of EUR 1.5 billion as a result of additional contributions from donors. Eligible counterparts would subsequently have 4 years as from the conclusion of the guarantee agreement 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 eligible counterparts under each guarantee agreement should not exceed 15 years.

- Some guarantee tools had to be postponed to EFSD+ (under the Neighbourhood, Development and International Cooperation Instrument) and others were recalibrated to address the impact of COVID-19.

Performance assessment

- The EFSD is managed by the European Commission and implemented through two regional investment platforms: the African Investment Platform and the Neighbourhood Investment Platform. It aims to use 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.

- The EFSD Guarantee covers portfolios of investments to be implemented by eligible counterparts in targeted areas — so-called investment windows. Investment under the EFSD is guided by the beneficiary’s development and sector policies, and helps foster an enabling environment (governance, legislation and regulations) through the support provided through technical assistance and the “enabling the business environment of the external investment plan” pillar.

- Based on the information provided by the financial institutions in their proposals, the guarantees that are approved are expected to contribute to the creation of close to 4 million jobs. They should also contribute to reducing carbon emissions by 6 000 kilotonnes a year and generate more than 4 gigawatts of energy, particularly renewable energy.

- In the course of 2020, as the COVID-19 virus spread around the globe, the Commission decided to use the EFSD as a tool to help partner countries overcome the crisis. This meant that the EFSD needed to adapt quickly to the economic needs created by the global pandemic, by focusing on micro, small and medium-sized enterprises, local currency financing and support for the health sector. Previously signed agreements covering financing for such enterprises were topped up, and new agreements were negotiated and signed. One particularly important shift was a new agreement to provide EUR 400 million in financing for the distribution of COVID-19 vaccines to partner countries. Several guarantees addressing the crisis will also be treated as a priority by the successor instrument, the EFSD+ Guarantee, as soon as it is adopted.

- The Commission established a results measurement framework for the EFSD, used in the guarantee agreements. 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 predefined indicators. At programme and project level, reporting on the expected and actual operational results is the responsibility of the lead financial institution. The list of indicators and the frequency and format of reporting are part of the guarantee agreements signed with the financial institutions.

- The EFSD is an instrument that translates quickly from regulatory decisions to impact on the ground. In addition, a key aspect of the EFSD is its capacity to leverage investments from the private sector. Investments are already materialising and the EFSD has already begun to show results. Shipments of COVID-19 vaccines have reached partner countries, entrepreneurs have received loans and private investors have invested alongside the Commission and its partner financial institutions. It is important to note that the investment period has only recently begun, and the duration of many of the guarantees is over 10 years. This means results will continue to be monitored and will increase in the coming years.

- Given the rapid and efficient roll-out of the EFSD, the Commission proposes a similar structure in the successor instrument in the form of the EFSD+. While the EFSD was limited to sub-Saharan Africa and the European neighbourhood, the EFSD+ will have a global outreach. In addition, the EFSD+ will expand its toolkit to include transactions not originally part of the EFSD, such as sovereign loans. Accordingly, the results framework designed for the EFSD will be enhanced to capture the architecture, tools and procedures designed for EFSD+ and at the same time to ensure coherence with Neighbourhood, Development and International Cooperation Instrument priority areas.

Concrete examples of achievements

<table>
<thead>
<tr>
<th>14</th>
<th>EUR 100 million</th>
<th>EUR 60 million</th>
<th>EUR 50 million</th>
<th>EUR 92 million</th>
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<td>guarantee agreements were signed in the course of 2020.</td>
<td>has been allocated to the municipal, infrastructure and industrial resilience programme of the European Bank for Reconstruction and Development, which aims to contribute to the green transition of the economies in the EU neighbourhood (guarantee agreement signed in 2020).</td>
<td>has been allocated to the financial inclusion programme of Cassa Depositi e Prestiti, aiming to promote financial inclusion driven by diasporas, leveraging private financing to foster inclusive and sustainable entrepreneurship and the growth of micro, small and medium-sized enterprises (guarantee agreement signed in 2020).</td>
<td>has been allocated to the European Guarantee for Renewable Energy – Non-Sovereign – of Agence Française de Développement, aiming to improve the certainty of payments for investors under offtake contracts in renewable energy projects in Africa and addressing the offtakers’ non-payment risk, which is considered critical for the development of independent power producers (guarantee agreement signed in 2020).</td>
<td>has been allocated to the Agricultural and Rural Finance Guarantee Programme of Agence Française de Développement, aiming to catalyse investment and support for local agricultural businesses in riskier environments and to improve liquidity and access to finance for smallholder farms and agricultural micro, small and medium-sized enterprises (guarantee agreement signed in 2020).</td>
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