



Brussels, 2.6.2020
COM(2020) 224 final

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the implementation of the European Fund for Sustainable Development

Table of Contents

1.	Executive summary.....	2
2.	Purpose and scope of the implementation report.....	4
3.	The European Fund for Sustainable Development and its implementation	4
3.1.	EFSD Guarantee	4
3.2.	Blending	6
3.2.1.	Africa Investment Platform.....	6
3.2.2.	Neighbourhood Investment Platform	6
4.	Assessment methodology	6
5.	Findings and answers to assessment questions	7
5.1.	Relevance.....	7
5.2.	Effectiveness and value added	7
5.3.	Efficiency.....	8
5.4.	Coherence and co-ordination	9
5.5.	Sustainability	10
6.	Conclusions and recommendations	10

1. EXECUTIVE SUMMARY

The European Fund for Sustainable Development (EFSD) was set up by Regulation (EU) 2017/1601 the ('EFSD Regulation')¹. It provides the legal basis for the use of innovative financial tools under the External Investment Plan ('EIP' / the 'Plan'), notably budgetary guarantees.

The EIP consists of three pillars. The EFSD constitutes the first pillar of the EIP, with the key objective to provide an integrated financial package to finance investments in the regions of Africa and the European Neighbourhood. It includes both blending operations and the guarantees. Technical assistance is provided through Pillar 2, to local authorities, as well as to enterprises, companies or cooperatives to develop better and viable projects. Technical assistance is also provided to activities classified under Pillar 3, which are activities supporting structured political and private sector dialogue with partner countries and other stakeholders for improving the investment climate and business environment.

Together with its partner Financial Institutions ('FIs'), the European Commission has already made good progress in putting the Plan into practice with many activities ongoing in all three pillars.

The present report builds on an external independent assessment that was carried out between July 2019 and January 2020. This assessment underlined that the EFSD is strongly relevant to the investment needs of the Sub-Saharan Africa and the EU Neighbourhood regions, as well as to the EU priorities and commitments.

With regard to '**relevance**', the EFSD approach has been characterised as **highly relevant** in the 'new Sustainable Development Goals (SDG)-led global development finance model'², given the EFSD's catalytic role, risk sharing capabilities and ability to enhance partnerships. It is thus considered to be one of the leading examples of this new model in action so far. By launching the EFSD, the EU is defining the term 'new generation donor'.

On '**effectiveness and additionality**' the assessment states that early stage dialogue in-country ensures that the EFSD pipeline is aligned with SDG priorities.

The EFSD enables the EU to do two things that are difficult to do with other EU instruments: engage much more broadly in support of private sector development and sub-sovereign investments, and support broad innovation.

With regard to '**efficiency**', the external assessment confirms that the EFSD governance structure facilitates transparency and coordination with all involved actors.

On '**coherence**', the external independent assessment points out that the EFSD encourages greater coordination and alignment between the EU and FIs. With the EFSD

¹ Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development, the EFSD Guarantee and the EFSD Guarantee Fund

² A model where development finance is targeted at the attainment of the Sustainable Development Goals by 2030, therefore helping to bridge the financing gap identified by the United Nations in relation to that objective

Guarantee, efforts have been made to engage with more FIs, including an open access model³ and portfolio approach that provides increased flexibility.

Finally the external assessment highlights that long-term **sustainability** of the EFSD as an approach is currently ensured by high levels of demand. This is reinforced by the potential of the EFSD (guarantees in particular) to test and develop new financial products.

These positive findings are reflected by the state of implementation of the EFSD. On the blending side, EUR 3.1 billion have been allocated so far for blending projects – financing 154 projects across the African continent and the EU neighbourhood. This EUR 3.1 billion is set to bring in about EUR 30 billion in overall investment in the energy and transport sectors primarily, while also developing the private and agricultural sectors.

On the guarantee side, seven guarantee agreements had already been signed by April 2020. The Commission signed the first guarantee agreement concerning the NASIRA project at the end of 2018, only a bit more than one year after the EFSD Regulation was adopted. As outlined in the external independent assessment, setting up a programme this large and innovative in such a time line can be considered fast as compared to other similar mechanisms. The subsequent signature of the other guarantee agreements showed the need to clarify persistent horizontal issues (see below), which would thereafter ensure the swift conclusion of all subsequent guarantee agreements prior to end of the present Multiannual Financial Framework.

The EFSD Guarantee utilises, amongst others, structures that aim to pinpoint the incremental risks of moving into new, more challenging markets, such as second-loss guarantees. There is a stronger focus on supporting additional investments by private investors and the guarantees not only aim to support investment but also to create markets, which may ultimately make the guarantee support unnecessary. The EFSD Guarantee thus represents a major development in the set of instruments used by the Commission in external cooperation.

With regard to the investment climate in 2019 alone, the Commission has made available over EUR 600 million to support the efforts of our partner countries to become more compelling places in which to invest.

Thus, overall the EIP and the EFSD are well on track and, in spite of some challenges, the initial target should be surpassed with the EFSD leveraging EUR 47 billion of investments by the end of the investment period, using EUR 4.6 billion under blending grants and EFSD guarantees.

³ Since the late 1970s, the EEC/EU has provided budgetary guarantees to cover the risks of financing operations undertaken by the European Investment Bank outside the EU (the so-called External Lending Mandate, most recently evaluated in SWD(2019) 333 final). Under the European Fund for Sustainable Development, the EU is able to provide budgetary guarantees to the EIB as well as to a number of other international financial institutions or development finance institutions of EU Member States

2. PURPOSE AND SCOPE OF THE IMPLEMENTATION REPORT

Article 17(1) of the EFSD Regulation provides that the Commission shall evaluate the initial functioning of the EFSD, its management and its effective contribution to the purpose and objectives of the Regulation.

In order to provide as much information as possible and taking into account the early implementation stage of the EFSD, the Commission produced this implementation report, encompassing the initial assessment of the main evaluation criteria of relevance, efficiency, effectiveness, coherence and value added. The current report is based on the results of an external assessment carried out between July 2019 and January 2020.

The scope of the report covers the period from 1 January 2017 to 30 September 2019 (the cut-off date).

In terms of instruments, the report covers the Africa and Neighbourhood Investment Platforms, including both blending operations and the EFSD guarantee. In line with these, the geographic coverage includes the Sub-Saharan Africa and the EU Neighbourhood (east and south) countries.

3. THE EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT AND ITS IMPLEMENTATION

The EFSD constitutes the first pillar of the External Investment Plan. Its key objective is to provide an integrated financial package to finance investments starting in the regions of Africa and the Neighbourhood. EFSD is composed of two Regional Investment Platforms: one for Africa – the Africa Investment Platform (‘AIP’) and the second for the EU Neighbourhood – the Neighbourhood Investment Platform (‘NIP’). These platforms were established on the basis of previous blending facilities, Africa Investment Facility and Neighbourhood Investment Facility. They combine EU blending with a new guarantee instrument (EFSD Guarantee) The aims are to scale up resources for addressing the root causes of migration and to contribute to the achievement of the SDGs.

3.1. EFSD Guarantee

The **EFSD Guarantee** is a key innovative element of the EU External Investment Plan used to reduce the risks for investment in sustainable development in partner countries, thus helping mobilise investment. Its aim is to support investments in Africa and the European Neighbourhood with a view to foster sustainable and inclusive economic and social development, maximise additionality, as well as to crowd-in private sector funds. The guarantee is intended to serve as a risk mitigation mechanism to leverage private sector financing whilst avoiding market distortions.

The EFSD Guarantee shall not exceed EUR 1.5 billion to be covered from the general budget, with the possibility for contributions from other parties. Until the end of 2019, additional contributions include USD 50 million from the Bill and Melinda Gates

Foundation, EUR 9.6 million from Denmark, EUR 300 000 from the Czech Republic and EUR 100 000 from Estonia.

As provided in Article 9(4) of the EFSD Regulation, the Commission established five investment windows along the main priority areas⁴:

- Sustainable Energy and Connectivity
- Micro, Small and Medium Enterprise (MSME) Financing
- Sustainable Agriculture, Rural Entrepreneurs and Agribusiness
- Sustainable Cities
- Digital for Development

For each investment window, a variety of eligible counterparts presented their proposals, referred to as Proposed Investment Programmes (PIPs).

EUR 1.54 billion have been allocated to twenty-eight proposed guarantee programs. These are set to bring in an expected EUR 17.5 billion in overall investment. In terms of priority areas, the guarantee amounts approved in the sector of sustainable energy and connectivity reached EUR 603.5 million, in intermediated lending for MSMEs and agriculture EUR 522 million, in digitalisation EUR 220 million, in sustainable cities EUR 167 million, while EUR 22 million was foreseen to support local currency financing⁵.

Of the twenty-eight guarantees, seven guarantee agreements were signed by April 2020⁶. More signatures are to follow, with possible refocussing in order to contribute to a robust and targeted EU response to support partner countries' efforts in tackling the coronavirus pandemic⁷.

In parallel to the swiftness of their implementation, appropriate provisions must be agreed implementing the regulatory requirements for financial instruments and budgetary guarantees as set out in the EU Financial Regulation⁸ and other EU legislation. In particular, contracting with non-European development financial institutions has proven more effort and time intensive, as the EU requirements sometimes go beyond internationally accepted standards, e.g. on anti-money laundering and non-cooperative jurisdictions. In order to ensure the effectiveness in the implementation, it is therefore important for the Commission to have taken due account when selecting and involving FIs of their financial and operational capacity so as to build a financial architecture contributing to the policy objectives and to ensure adequately the sound financial management of Union funds. This requires intensive dialogue and negotiation of comparable contractual clauses between the Commission and its partners.

⁴ C(2017) 7899 final

⁵ https://ec.europa.eu/international-partnerships/system/files/181213-28-guarantees-table_en.pdf

⁶ FMO's NASIRA Guarantee Facility, CDP and AfDB's Archipelagos Guarantee Agreement, FMO's Ventures Programme Guarantee Agreement, EBRD's Framework to Scale-up Renewable Energy Investments, AECID and World Bank Group's Resilient City Development (RECIDE), KfW's African Energy Guarantee Facility 'AEGF' and EIB's SME Access to Finance Guarantee Agreement

⁷ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_604; Coronavirus: EU global response to fight the pandemic

⁸ Regulation (EU, Euratom) 2018/1046

It is crucial that the agreements are thoroughly sound and comprehensive and in line with the requirements set by the EU Financial Regulation and the EFSD Regulation, so that our partners are clear about what they are expected to deliver with these guarantees, backed by the EU taxpayers' money.

3.2. Blending

Blending combines EU financial support with loans or equity from other public and private financiers to leverage public and private investments contributing to sustainable economic development. In the framework of the EFSD, blending is implemented through two regional blending platforms: Africa Investment Platform (AIP, formerly the Africa Investment Facility; AfIF) and the Neighbourhood Investment Platform (NIP, formerly the Neighbourhood Investment Facility; NIF).

From 2017 to 2019 a total of EUR 3.75 million was pledged and paid to the NIP Trust Fund, of which EUR 2.75 million by Germany and EUR 1 million by Estonia.

3.2.1. Africa Investment Platform

The key objective of the Africa Investment Platform is to promote the economic and social development of partner countries, including through the mobilisation of private sector resources, with a focus on sustainability and decent job creation, socio-economic sectors and sustainable agriculture.

During the period 2017-2019, under the Africa Investment Platform, the EU has contributed EUR 1.8 billion towards 78 operations, unlocking total investment in Sub-Saharan Africa of EUR 13.5 billion.

Projects thus far have primarily been focused on the transport and energy sectors, accounting for 44% and 34% of operations respectively. Ensuring improved infrastructure and access to energy are both prerequisites for future effective growth. Remaining projects have targeted the private sector development, environment, ICT and agriculture⁹.

3.2.2. Neighbourhood Investment Platform

Similarly, during the period 2017-2019, under the Neighbourhood Investment Platform, the EU has contributed EUR 1.3 billion towards 76 operations. It is estimated that this funding will help to unlock total investment in the Neighbourhood region of some EUR 16.2 billion.

The regional split between Eastern and Southern Neighbourhood is 44%-56%. Projects thus far have primarily been focused on private sector development (33%), energy (18%)

⁹ For detailed information refer to the upcoming EFSD Operational Report 2019 (to be published)

and water and sanitation (18%). Remaining projects have targeted the transport, environment, education, urban development and agriculture¹⁰.

4. ASSESSMENT METHODOLOGY

The implementation report provides the assessment by the Commission services, on the initial functioning of the EFSD, its management and its contribution to the purpose and objectives of the EFSD Regulation. This Commission's report is based on the work of external consultants, which provided an independent external assessment.

The external assessment was commissioned to provide an independent view of the initial stage of the implementation of the EFSD and was based, as much as possible at this stage, on the five assessment criteria of relevance, efficiency, effectiveness, coherence and value added.

5. FINDINGS AND ANSWERS TO ASSESSMENT QUESTIONS

5.1. Relevance

The first evaluation question refers to the relevance of the EFSD and reads: *'Do the EFSD guarantee/blending tools respond to the call for a new development finance model in the SDG era, as well as the investment needs of the two regions and EU priorities and commitments?'*

In response to this question, the external assessment states that the EFSD is highly relevant to the need for a new global development finance model and similarly strongly relevant to the investment needs of the two regions (Sub-Saharan Africa and the EU Neighbourhood), as well as to the gamut of EU priorities and commitments.

The EFSD was found to be highly relevant to the requirements of the 'new SDGs-led global development finance model', particularly in terms of catalytic role, sharing risk and developing partnerships. It is considered to be probably one of the leading examples of that new model in action so far.

The evidence shows that the EFSD is policy driven. Its policy focus is compatible with the SDGs, compatible with the demand (needs) in partner countries and impacts the loan allocations of FI partners, by providing guidance to those allocations based on policy orientations.

The evidence shows that the EIP – and the EFSD within it – builds on and is coherent with a range of other EU commitments and priorities. It also shows that the EFSD has enabled the EU to engage more broadly.

In view of the fact that the EFSD only supports loans and equity related to investment projects, it cannot be a substitute for budget support, which does not accommodate

¹⁰ Idem

projects, nor for direct grants to entities that do not have the capacity to borrow, such as non-governmental organisations.

5.2. Effectiveness and value added

The second evaluation question refers to the effectiveness and the value added criteria and reads *‘Does the EFSD deliver against objectives and specific EU priorities and provide additionality in its support to target countries?’*

In response to this question, the external assessment states that the EFSD delivers on financial additionality, shows early promise of delivering on non-financial additionality and has enabled broader engagement. While visibility is in compliance with the Regulation, there is an opportunity for further enhancement by developing a ‘brand’.

The EFSD is crowding-in substantial amounts of other funding (including private co-financing). As the study informs, taking blending and guarantees together, the EFSD data as of September 2019 shows that EFSD approvals of EUR 4.03 billion mobilise EUR 40.5 billion of total investments – which gives an average financial leverage figure of 10.04¹¹. This demonstrates the effectiveness of the EFSD model to attract more money.

Below the headline figure there is considerable complexity and diversity as regards to the instrument, sector, country or regions. The future leverage will thus depend on EFSD’s instrument, project and country mix. Furthermore, blending and guarantees mobilise different types of ‘additional money’, reflecting the different types of projects they support.

The external assessment further considers that early stage dialogue in-country ensures the EFSD pipeline is aligned with SDGs priorities and initial evidence shows there is broad alignment with many SDGs priorities and targets. Additionality at project level appears strong and qualitatively substantiated – but rarely quantified. At policy level, there are examples where EFSD supported to, or reinforced a policy change.

The first guarantee agreement signed, NASIRA, implemented by FMO, gives a good example on how the root causes of migration are being addressed; it addresses the high risks, both perceived and real, involved in lending to under-served entrepreneurs in countries neighbouring the EU and in Sub-Saharan Africa, many of whom have been forced to flee their homes. It gives them access to investment loans by offering local financial institutions, such as banks and microfinance institutions, portfolio guarantees containing loans to entrepreneurs.

The EFSD enables the EU to do two things that are difficult to do with other EU instruments – at least to the same scale and with existing budgets: engage much more broadly in support of private sector development and sub-sovereign investments, and support innovation.

¹¹ Corroborated by end-2019 update: approvals of EUR 4.6 billion unlock EUR 47 billion of investments https://ec.europa.eu/commission/sites/beta-political/files/update4_jan20_factsheet_eip_en_0.pdf

The visibility picture complies with the EFSD Regulation and EU Guidelines, but some challenges and opportunities lie ahead. These include possible improvements in the definition of the communication strategy at project level, creation of brand image for EU development support, as well as adequate follow-up on the existing communication activities especially with the private sector.

5.3. Efficiency

The third evaluation question refers to the EFSD efficiency and reads: *‘To what extent does the set-up, design, functioning, management and structure of the EFSD contribute towards achieving its aims?’*

In response to this question, the external assessment states that within the existing set-up, the governance of the EFSD complies with the Regulation, as does the financial management.

The external assessment confirms that the EFSD governance structure facilitates transparent management and partnership and complies with the EFSD Regulation.

Certain challenges and operational issues were identified and stressed in interviews. These related to: managing the product diversity within the EFSD (i.e. blending and guarantees), the business process and timing impact; staff capacity and division of responsibilities; knowledge management. These issues can be attributed to the ‘learning curve’ given the early stage nature of the guarantee programmes. Based on the analysis, the study concludes that EFSD’s operational blueprint needs more detailed review focusing on: i) the purpose and design of the business process; ii) the organisation structure; iii) staff skills and training; and iv) knowledge management.

While blending grants are set as result of calculation and considering “available budget”, quantification of calculations should be more regularly used. In the case of the EFSD Guarantee, allocations to PIPs were modified and adapted responding to a programming exercise designed to ensure a spread of programmes across the five windows.

The EFSD monitoring framework design is aligned with the EU Results Framework for development cooperation, but its ability to produce data that can be consolidated and aggregated should be improved, taking into account the following: i) the methodology still needs to be agreed for some of the proposed indicators, ii) limited added value and lack of comparability of core sector indicators; and iii) tensions between the Commission services’ reporting needs and FIs’ own systems and approach to monitoring: FIs need to report on two frameworks (EU’s and internal) which increases costs and encourages a narrower focus on common ground (similar or comparable indicators).

5.4. Coherence and co-ordination

The fourth evaluation question refers to the EFSD coherence and co-ordination and reads: *‘To what extent is the EFSD equipped to ensure coherence internally, in relation to EU strategies and policies in the regions, and with FIs’ operations?’*

In response, the external assessment considers the EFSD coherence at three different levels: a) amongst EFSD components, b) with other forms of EU support; and c) with the activities of FIs.

As regards the coherence amongst the EFSD components, the launch of the EFSD guarantee programmes may affect the future range of blending grants, and diminish the rationale for guarantees under blending, as well as the applicability of paid-in risk capital for first-loss tranches in structured funds. So some formal rationalisation may be needed to improve the coherence of the EFSD ‘product mix’. Operational and project cycle aspects may need review in order to improve synergies.

In terms of coherence with other forms of support, the study considers that the EFSD represents a differentiated set of tools and complements other forms of support. The study confirms that the integration of the EFSD as one of the three pillars of the EIP should encourage greater complementarity and coordination between the EFSD and other forms of EU support.

Blending operations are relatively well coordinated with other forms of support, which is mostly due to direct engagement of EU Delegations. However, attention is drawn to their role and involvement as regards the detailed formulation of the blending projects and the actual implementation of the EFSD guarantees.

The EFSD encourages greater coordination and alignment between the EU and FIs. With the EFSD Guarantees, efforts have been made to engage with more FIs, including an open access model and portfolio approach that provided increased flexibility.

5.5. Sustainability

The fifth evaluation question refers to the sustainability of the EFSD and reads: *‘Are the EFSD guarantee and blending operations sustainable?’*

In response, the external assessment states that the EFSD has the potential to target sustainable policy reforms, though only few projects and programmes incorporate that as an explicit objective.

The EFSD is aligned with the SDGs and compliance is checked at the project/programme level. Gender and other cross-cutting indicators are also considered, but it is not clear how the EFSD will be able to monitor performance due to limitations of the monitoring framework, for example by the capacity of FIs to collect disaggregated data when working through intermediary financial institutions that might not have systems in place collecting such types of data.

The long-term sustainability of the EFSD as an approach is currently ensured by high levels of demand. This is reinforced by the potential of the EFSD (guarantees in particular) to test and develop new financial products.

6. CONCLUSIONS AND RECOMMENDATIONS

This chapter provides lessons learnt and recommendations, based on the findings of the independent external assessment. It includes the response of the Commission services and, where relevant, it refers to measures included in the report from the Commission to

the Council on the recommendations of the high-level group of wise persons on the European financial architecture for development¹².

Relevance:

On relevance, the external report recommends to develop tailored risk reduction packages for specific investor groups and to exploit the strong market position to co-opt more donors with a view to achieving a greater risk reduction impact.

Commission response:

The recommendations are accepted and the Commission agrees to further expand the analysis and targeting of the private sector to increase the attractiveness of the EFSD instrument. The Commission is already developing this approach, either through individual programmes or through sectoral studies on investment in natural capital and the circular economy.

More particularly, further work will be carried out to increase the investment opportunities for green and circular economy.

The issue of bringing on board other donors is taken up. Additional contributions have already occurred and in future, donors (EU Member States or others) may wish to contribute to the EFSD through a transfer of funds either (i) under existing governance structure (ii) or through a dedicated structure, which would require specific governance.

Effectiveness and additionality:

In terms of effectiveness and additionality, the external report recommends that the portfolio should be managed to give greater prominence to the ‘newer’ SDG sectors and targets (e.g. digitalisation, sustainable cities and agriculture). It further recommends improvements to be introduced in the additionality section of the application form and in the visibility towards the private sector partners.

Commission response: These recommendations are welcome and accepted.

- The Commission will continue the emphasis on achieving the policy priorities. Through creating specific windows for agriculture, digitalisation and sustainable cities for the EFSD guarantee, the Commission made an important step to encourage investment in these areas. By supporting such investments through the EFSD, the Commission will also continue to aim at addressing 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 Commission, in its Neighbourhood, Development and International Cooperation Instrument (NDICI) proposal¹³, establishes an EFSD+ with a worldwide scope which will be the successor to the EFSD for next MFF. Pursuant to the proposal,

¹² COM(2020) 43 Final, Report from the Commission to the Council on the recommendations of the high-level group of wise persons on the European financial architecture for development <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1580526319085&uri=COM:2020:43:FIN>

¹³ COM(2018) 460 final Proposal for a regulation of the European Parliament and the Council establishing the Neighbourhood, Development and International Cooperation Instrument

the EFSD+ would follow the ‘policy first’ principle, according to which the use of these implementing tools should comply with the programming documents. These documents would identify the EU and partner countries priorities, which would cover newer ‘SDGs’ sectors including digitalisation, sustainable and smart cities and sustainable agriculture, and would also complement and strengthen efforts carried out in the context of the Union’s migration policy with third countries.. Respective modifications will be taken up in the future revisions of the application form. Performance indicators and their subsequent monitoring have been included in the text of the signed guarantee agreements.

- The Commission recognises the need for consistent branding and narrative to reinforce the EU’s global development strategy. In a report to the Council¹⁴, the Commission outlined several potential actions to take ensuring consistency across the various implementing partners and actors. The Commission also welcomes an increase in Member State ownership via this common branding, which will widen the EFSD’s current audience and reach.

Efficiency:

On efficiency, the external assessment recommends launching a review of the business process, assess the selection of the database for risk assessment and develop methodologies for the results measurement indicators.

Commission response: These recommendations are welcome and accepted.

The review of the business process shall relate to the ongoing review of the new financial architecture. The EFSD is a novel and innovative instrument for which new processes were put in place with the entry into force of the EFSD Regulation. The future EFSD+ is proposed to be based on the ‘policy first’ principle and on an open and collaborative architecture, with specific governance¹⁵. In application of the policy first principle, the programming would allow establishing long-term priorities for our cooperation with partner countries, including through the use of modalities such as blending and guarantees in the pursue of these priorities. Programming is an inclusive and iterative process requiring consultations of partner countries, Member States, civil society organisations, private and public sector and financial institutions, as well as the involvement of the Council and the European Parliament.

Staff skills training is ongoing and will be further developed in line with the current and future needs. In terms of ongoing actions, and as indicated in the recent report from the Commission to the Council¹⁶, the Commission is increasing its capacity and financing expertise by expanding staff’s training in development financing, project financial management and by further upgrading the skills of its staff specialised in the legal, financial and budgetary specificities of financial instruments. The Commission will also continue hosting experts seconded from FIs. This enhanced capacity will help the

¹⁴ COM(2020) 43 Final

¹⁵ COM(2018) 460 final

¹⁶ COM(2020) 43 final

Commission to protect the EU budget and manage the foreseen increase in exposures covered by budgetary guarantees in the next programming period.

With regard to the selection of the database for risk assessment, the Commission, in cooperation with FI experts and other partners, is in the process of developing dedicated software that would help to model risks under the EFSD+ guarantee, recognising the specific challenges in developing and transition countries and building on data from the Global Emerging Markets Risk Database (GEMs). The provision of expert advice on the risk profile and guarantee remuneration will enhance the Commission's capacity to identify the portfolios of investment projects to be guaranteed. This advice will also support the monitoring and management of the accumulated portfolio risk.

Finally, the Commission has been using results framework in the guarantee agreements signed to date. The list of indicators, the frequency and format of reporting are part of the guarantee agreements signed with the financial institutions. The work on harmonisation of reporting on the results is ongoing.

Coherence:

The external assessment recommends the existing EFSD product mix to be further defined based on added value and efficiency considerations and providing clear guidelines for the FIs. It further recommends building on the open access model, which has proven to increase the diversity of the FIs involved improving the coherence and efficiency of the operations.

Commission response: These recommendations are accepted. Further definition of the product mix will be done in the context of deployment of the EFSD+. In the NDICI proposal the budgetary guarantees will be subject to programming along with the other forms of assistance¹⁷ so they will be in line with identified needs and priorities identified and coordinated with other aid modalities.

The Commission encourages the open financial architecture model and this approach will be further pursued in the new programming cycle. Streamlined governance of blending and budgetary guarantees is foreseen in the context of the 'integrated financial package' to be provided by the European Fund for Sustainable Development Plus (EFSD+).

The Commission also strongly encourages the submission of proposals by consortia of Development Finance Institutions (DFIs) including at least one small FI in its composition. Furthermore, the Commission is currently looking at ways to facilitate and support the pillar assessment in order to further strengthen inclusiveness.

Sustainability:

¹⁷ Article 12 (1) of the proposed NDICI Regulation (COM(2018) 460 final) stipulates that 'the implementation of this regulation shall be carried out for geographic programmes through multiannual country and multi-country indicative programmes'

On sustainability, the external assessment recommends that the EFSD projects consistently consider the linkages with policy reform objectives in order to maximise synergies and encourage greater alignment with Pillar 3 activities. It further recommends that demand levels for different EFSD products are monitored and knowledge management systems are designed to collect ex-post information on financial innovation, in order to identify and encourage best practices.

Commission services response: These recommendations are accepted.

The Commission will continue to work on linking investment mobilisation with support to investment climate improvements under Pillar 3, with view to enhance the integrated approach of the EIP. This includes promoting the policy first approach, supporting enhanced public-private dialogue with key stakeholders including DFIs to identify investment obstacles, engaging with governments to address policy reforms, and providing technical assistance and capacity building to public and private actors.

On monitoring the demand for EFSD products, this recommendation can be linked with the first recommendation. In terms of the knowledge management systems, EFSD will be integrated inside the new knowledge management system for the external action, OPSYS, with specifically adjusted modules as maybe required.

The use of platforms such as the EU Platform for Blending in External Cooperation (EUBEC), the Practitioners Network and the Technical Assessment Meetings (TAM) of the blending platforms, all serve as ways of bringing together key international and European DFIs to discuss best practices, evolving approaches and better coordination, to the benefit of the EU external cooperation.