

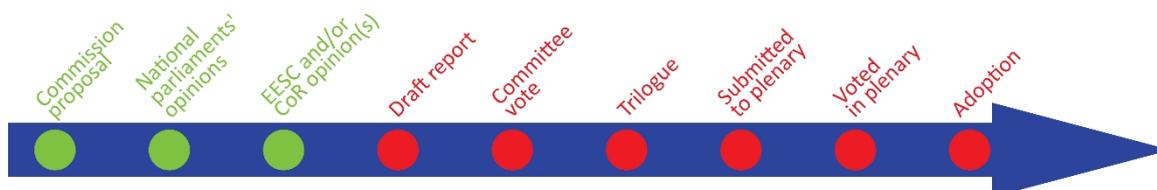
# European Fund for Sustainable Development (EFSD)

## OVERVIEW

The Commission took the opportunity provided by the September 2016 mid-term review/revision of the MFF 2014-2020 to propose the creation of a new innovative financial instrument – the European Fund for Sustainable Development (EFSD). The EFSD is part of the partnership framework for cooperation with countries with high irregular emigration and is one of the pillars of the new external investment plan, inspired by the success of the investment plan for Europe. The proposed fund aims to mobilise EU grants to catalyse investment from public and private sources to tackle the root causes of migration in the European neighbourhood and Africa, while helping to achieve the 2030 Agenda Sustainable Development Goals. Some NGOs have voiced concern regarding the migration compacts themselves, and the proposal for the new fund, fearing the use of development policy resources for migration management purposes and in pursuit of European private sector interests.

## Proposal for a regulation of the European Parliament and of the Council on the European Fund for Sustainable Development (EFSD) and establishing the EFSD guarantee and the EFSD guarantee fund

<i>Committees responsible:</i>	Foreign Affairs (AFET), Development (DEVE), and Budgets (BUDG) jointly under Rule 55	COM(2016) 586 14.9.2016 2016/0281(COD)
<i>Rapporteurs:</i>	Doru-Claudian Frunzulică (S&D, Romania) Eduard Kukan (EPP, Slovakia) Eider Gardiazabal Rubial (S&D, Spain)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Initial discussions in joint committee meeting	



## Introduction

Subject to unparalleled external migratory pressure driven by conflict, instability and poverty in its neighbourhood, the EU is adapting its policy framework to cope with the protracted crisis. On 7 June 2016, the European Commission adopted a [communication](#) on establishing a new **partnership framework with third countries** under the **European agenda on migration**, proposing new 'migration compacts' with key third countries from which migrants originate and transit. Tailored agreements have initially been concluded with Jordan and Lebanon, to be followed by compacts with 'priority' countries (Ethiopia, Mali, Niger, Nigeria and Senegal; then Eritrea, Somalia, Sudan, Ghana, Ivory Coast, Algeria, Morocco, Tunisia, Afghanistan, Bangladesh and Pakistan) combine elements from different EU instruments and policies to provide strong incentives for partner country cooperation on migration management. Introducing an element of conditionality linked to countries' cooperation on readmission and return, the 'compacts' have a longer term objective to address the root causes of migration. In this context, on 14 September 2016, the Commission [proposed](#) a new **European external investment plan** (EIP) package, building on the experience of the successful investment plan for Europe, to scale up private sector involvement in socio-economic development in the partner countries, thus contributing to alleviate the poverty that is one of the main causes of migratory pressure. This EIP will be based on three pillars: mobilising investment through the new investment fund and its guarantee; technical assistance to develop economically viable projects; cooperation programmes and dialogue to improve economic governance and promote a better business environment. The EFSD, the EFSD guarantee, and the EFSD guarantee fund, will be the main instruments through which the first pillar will be implemented.

## Existing situation

Since 2007, the EU has increasingly engaged in 'blending' – using EU grants to leverage loans from public and private finance institutions to support its external relations objectives. In the current context of constrained resources, a series of innovative financial instruments has been set up to increase the volume and flexibility of development finance, as well as EU action visibility.

Currently there are seven [EU regional blending facilities](#), under three main blending frameworks, according to the EU financing instrument providing support (see Table 1): the Latin America Investment Facility; the Asia Investment Facility; the Investment Facility for Central Asia; the Africa Investment Facility; the Caribbean Investment Facility; the Investment Facility for the Pacific; and the Neighbourhood Investment Facility. These geographically focused mechanisms link a grant element, provided by [official development assistance \(ODA\)](#), with loans from public institutions or commercial lenders.

The grant contribution from EU blending facilities can take [different forms](#), for optimal support of the investment projects that have to contribute to the fulfilment of EU and partner country strategic development goals:

- investment grant and interest rate subsidy, aiming at reducing the initial investment and overall project cost for the partner country ([47 % of all grants](#));
- technical assistance, to ensure quality, efficiency and sustainability of a project (31 %);
- interest rate subsidy (11 %);
- risk capital (i.e. equity and quasi-equity) aiming at attracting additional financing (6 %);
- guarantees, to unlock financing for development by reducing risk (4 %).

In the last nine years, around €2.7 billion of [EU grants](#), co-financed over 270 projects, helped to unlock investments with an estimated volume of €50 billion in EU partner

countries. The projects mainly concerned energy and transport (60 %), social infrastructure (27 %) and private sector support (13 %).

**Table 1 – EU blending facilities**

Framework	Facility name	Year of establishment	EU contribution	Leverage effect 2010-2015	
Development cooperation instrument (DCI) blending framework	<a href="#">Latin America Investment Facility (LAIF)</a>	2010	€232 million for 28 projects (2010-2015)	1:29	
	<a href="#">Asia Investment Facility (AIF)</a>	2010	€89 million for 18 projects (2010-2015)	1:30	
	<a href="#">Investment Facility for Central Asia (IFCA)</a>	2010	€119 million for 22 projects (2010-2015)	1:7	
European Development Fund (EDF) blending framework	<a href="#">Africa Investment Facility (AfIF)</a> (replacing former EU-Africa Infrastructure Trust Fund (EU -AITF) in place since 2007)	2015)	€654.9 million for 77 projects (2007-2015)	1:14	Part of EFSD
	<a href="#">Caribbean Investment Facility (CIF)</a>	2012	€68.6 million for 9 projects (2012-2015)	1:8	
	<a href="#">Investment Facility for the Pacific (IFP)</a>	2012	Two EIB-led operations €10 million (2012-2014)	No data	
European neighbourhood blending framework	<a href="#">Neighbourhood Investment Facility (NIF)</a>	2008	€1.072 billion 95 projects (2008-2014)	No data	Part of EFSD

Source: European Commission.

The European Investment Bank (EIB) is the largest implementer under the blending facilities (up to 30 % across all facilities). The [EIB](#) has been active outside the EU for more than 50 years, mainly on the basis of the external lending mandate or the Investment Facility for ACP states. These EU mandates have evolved over time, in line with changing and regionally diverse priorities. Broadly, EIB supports three main objectives outside the EU: local private-sector development, economic and social infrastructure and climate change mitigation and adaptation; with an additional transversal objective of regional integration.

In parallel, since January 2013, the new [Financial Regulation applicable to the EU budget](#) allows the European Commission to create and administer [EU trust funds](#) in the field of external action. Among three trust funds created so far, the [EU emergency trust fund for Africa \(EUTF\)](#) aims at tackling, as the EFSD will also do, the root causes of irregular migration and forced displacement by promoting economic and equal opportunities, security, and development. The fund pools resources from different sources; the main part, €1 billion out of €1.8 billion, is an EU contribution from European Development Fund (EDF) reserves. The rest, €82 million, is pledged mainly by EU Member States.

### Parliament's starting position

In its [resolution](#) of 14 April 2016 on the private sector and development, the Parliament welcomed a stronger role in development cooperation for the (properly regulated) private sector. Parliament stressed that official development assistance (ODA) must remain a key means for eradicating poverty in developing countries, and that it cannot be replaced by private funding. However, Parliament acknowledged the benefits of leveraging private finance with ODA under conditions of transparency, accountability, ownership and alignment with country priorities and debt sustainability risk. The Parliament called upon the Commission to clearly demonstrate the financial and development additionality of blended projects in each case.

In its [resolution](#) of 12 April 2016 on the situation in the Mediterranean and the need for a holistic EU approach to migration, the Parliament recognised that the global approach to migration and mobility (GAMM) is the basic instrument setting out the objectives of EU external policy on migration. Addressing the root causes of migration should be the main focus, and should be accompanied by supplementary financial means to help build capacity in third countries, by facilitating investment and education; strengthening and enforcing asylum systems; helping to better manage borders; and reinforcing legal and judicial systems. A parallel position is seen in Parliament's [resolution](#) of 7 June 2016, on the 2015 EU report on policy coherence for development, where Parliament acknowledged the need to strengthen the link between migration and development policies. The resolution points out that the development policy objective to eradicate poverty should be better integrated into new EU migration policy, including economic, political and social development focused actions that would help to address the underlying causes of the current crisis. It also stresses that development aid should not be used for migration control purposes, and calls on the EU and the Member States to refrain from reporting refugee costs as ODA at the expense of the development programmes which tackle the root causes of migration.

In its [resolution](#) of 13 September 2016 on the EU trust fund (EUTF) for Africa, the Parliament stressed that the use of EUTF funds allocated from the European development fund (EDF) and development policy budgetary instruments should fulfil ODA criteria. The Parliament also expressed concern that the financing of the trust fund may be implemented to the detriment of development objectives, and condemns the use of EDF and ODA for migration management and control in the absence of clear development objectives. The Parliament emphasised that the main goal of development policy, as stated in [Article 208](#) of the Treaty on the Functioning of the European Union (TFEU), must remain the reduction and eradication of poverty.

In a draft joint [own-initiative report](#) on addressing refugee and migrant movements: the role of EU external action (Committees on Foreign Affairs and on Development, rapporteurs: Agustín Díaz de Mera García Consuegra, EPP, Spain and Elena Valenciano, S&D, Spain), the rapporteurs expressed the view that EU development policy should continue to address the underlying causes of forced displacement and welcomed the new partnership framework. However, they also voiced concern regarding a quantitative approach apparent in the migration compacts, which propose measurable increases in the number and rate of returns as a main goal; and stressed that migration management objectives should be balanced and complemented by a focus on developing local economies and improving levels of security and regional mobility. The report expresses support for the external investment strategy, and calls upon the Commission to ensure

coherence between various financing instruments and projects and avoid dispersion of EU funds. The draft report also notes that the creation of various trust funds and ad hoc financial instruments, while improving the flexibility and visibility of European action, endanger budgetary unity and Parliament's budgetary authority. The rapporteurs call for greater European Parliament involvement in the scrutiny of the new financial instruments, including a Parliament seat on their steering committees.

### European Council starting position

On 28 June 2016, the [European Council](#) endorsed the Commission's proposal for a new partnership framework with third countries, and asked the Commission to present the external investment plan in September 2016, to be examined by the European Parliament and the Council as a matter of priority. The European Council [conclusions of 21 October](#) reaffirmed the importance of the External Investment Plan to the implementation of the new partnership framework. At its meeting of [15 December](#) the European Council stressed the need for a swift implementation of the legislation relevant to the plan.

### Preparation of the proposal

Announced in the framework of the Commission proposal for migration compacts in June 2016, the [European external investment plan](#) – and thus the creation of the EFSD – were further outlined in the Commission [communication](#) 'strengthening European investments for jobs and growth: towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan', of 14 September 2016. The creation of the new fund was also mentioned in the chapter on migration in the Commission [communication](#) on the mid-term review/revision of the multiannual financial framework 2014-2020. The communication stresses that addressing the long term root causes of migration requires a massive increase in available resources, and that the external investment plan will aim to catalyse the active involvement of the private sector necessary for the different modes of development cooperation.

Since 2013 the [role of the private sector in development cooperation](#) has been increasingly recognised in a series of Commission communications. In July 2013, a [communication](#) on financing the post-2015 development agenda 'Beyond 2015: towards a comprehensive and integrated approach to financing poverty eradication and sustainable development', the Commission presented the new comprehensive and integrated approach to development financing, in which all available resources (public domestic, public international, and private) should be considered as a whole. In this framework, new forms of public cooperation with the private sector, recognised as a key driver of growth, should direct private investment to promote financial investments that fulfil environmental, social and economic objectives. The 2014 [communication](#), 'involving the private sector in generating jobs and growth in developing countries', envisages action to be taken to support the development of the private sector in developing countries, on one side; and to increase the European private sector contribution to financing development cooperation on the other. The Commission thus proposed action to create a better business climate to attract foreign investment, to promote company social responsibility, and to promote public-private partnership. The public support of private investment should be subject to several conditions, such as measurable development impact; additionality; neutrality (no market distortion); and adherence to social, environmental and fiscal standards. The Commission recognised blending as an important instrument for leveraging additional resources for development. The EFSD is a

continuation of this approach and will, according to the Commission, promote the objectives described in the 2014 communication.

### The changes the proposal would bring

The EFSD, the EFSD Guarantee and EFSD Guarantee Fund constitute one of the three pillars of the [external investment plan](#). Alongside the new fund (pillar 1), the Commission proposes to focus on technical assistance to support local partners in the preparation of projects which are sustainable and attractive to investors (pillar 2), and on actions aimed to improve the business environment and economic governance in the partner countries (pillar 3). The new fund will be composed of two regional platforms: one for Africa and the second for the EU neighbourhood (south and east), with the possibility of creating a supplementary platform in the future. The EFSD will function as a 'one-stop shop', proposing access to well-established blending facilities coupled with a new, additional guarantee for public and private investors and financial institutions that request integrated financial support for eligible investment in [ACP](#) African countries and the EU neighbourhood. The aims are to scale up resources for addressing the root causes of migration and to contribute to the achievement of the SDGs. The Commission stresses the consistency of this objective of the regulation with the overall aim of EU development policy – the eradication of poverty – in line with Article [208](#) TFEU.

The EFSD guarantee is one of the components of EFSD that will leverage additional financing by allowing risk sharing with private investors, international financial institutions and development banks. The EFSD will combine resources from two existing blending facilities (€2.6 billion from revamped blending facilities NIF and AfIF) and the corresponding EFSD guarantee fund will be based on funding of €750 million, including €350 million from the EU budget and €400 million from the European development fund, with additional contribution from Member States and public financial institutions. The EFSD guarantee fund will intervene with liquidity to compensate, if necessary, losses covered under the guarantee agreement.

The proposal envisages that the EFSD will be managed by the Commission, under a strategic board composed of representatives from the Commission, of the High Representative, of the Member States, and of the EIB; and two operational boards, one for each regional investment platform. Beyond its role on the strategic board, the EIB's role remains undefined in the draft regulation on the EFSD, and indeed under the external investment plan more generally. The EP may gain observer status on the strategic board. The Commission shall report on an annual basis to the EP and to the Council on the financing and investment covered by the EFSD guarantee. The Commission [expects](#) that EFSD will trigger additional public and private investment of up to €44 billion, and if the Member States match the EU contribution, this could be twice as much – €88 billion.

### Court of Auditors

European Court of Auditors [Special Report No 16 \(2014\)](#), on the effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies, concludes that in the 2007-2013 period, blending was generally effective, but the full potential of the established facilities was not fully realised due to Commission management shortcomings. Also, for half of the projects examined, there was insufficient evidence to consider that the grants were necessary for the loan to be granted, while, in a number of these cases, there were indications that the investments would have been made without an EU contribution.

### Advisory committees

In its [draft opinion](#) the European Economic and Social Committee (EESC) considers the proposed regulation a step in the right direction towards tackling the root causes of irregular migration. It welcomes the alignment of the new proposal with the EESC stance on greater involvement of the private sector in development financing, and the use of ODA to leverage private investment linked to clearly defined development goals. It also recommends involving civil society organisations in partner countries in the decision-making process. Finally it underlines the need for the new fund to focus on fragile states, where the proposed guarantee may help the private sector to face the higher risk.

In its [opinion](#) on a Partnership Framework with third countries under the European Agenda on Migration, adopted on 8 February 2017, the Committee of the Regions welcomes the Commission proposal, including the pillar aimed at mobilising investment in Africa and EU Neighbourhood countries. In order to match the total contribution made available by the EU, the Committee of the Regions proposes that specific agreements are signed with Member States and other international partners.

### National parliaments

The [deadline](#) for the submission of reasoned opinions on the grounds of subsidiarity passed on 19 December 2016. No reasoned opinion has been adopted.

### Stakeholders' views

*This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.*

Contrary to the proposal for EFSD, which has not yet been widely discussed, the overall framework of the migration compacts and the external investment plan has come under heavy criticism by numerous non-governmental organisations (NGOs).

Prior to the endorsement by the June 2016 European Council of the migration compacts, 124 NGOs issued a joint statement, calling upon the Council to reject the Commission communication establishing a new partnership framework with third countries. Denouncing the 'instrumentalisation' of development policy for migration management purposes, these stakeholders reject the idea of conditionality for the attribution of EU aid based on migration indicators. Concerning financing, their main concern is the diversion of development resources towards migration management.

Accordingly, for [Oxfam](#), the external investment plan alone cannot address the causes of forced displacement. Indeed conflict and insecurity are among its main causes and companies are unwilling to invest in unstable countries, preferring larger and richer developing economies. The EU should rather support public investment to create the conditions needed for sustainable development. For this stakeholder, the external investment plan is expected to promote multinationals' presence in developing countries without ensuring respect for labour and environmental standards. [Actionaid](#) has also expressed concern that supporting business community investment in developing countries, while resisting regulation of European companies' operations, may aggravate the human rights situation of people living in poverty in the global south.

In November 2016, several NGOs in the development field expressed further concerns and [recommendations](#) on the external investment plan in general, as well as its first pillar, the new fund and its guarantee. Among the main points raised are:

- the risk of ODA being diverted from public investment and essential services,
- the risk of ODA being used to leverage private-sector investment in less risky countries, rather than least developed countries,
- insufficient social, labour and environmental safeguards in the draft EFSD regulation
- need for stringent eligibility criteria for EFSD interventions to ensure commitment to SDGs, Busan development effectiveness principles and Paris climate agreement
- establishment of a centralised grievance mechanism
- need to scale up evaluation and monitoring to assess the impacts of blended supported project and its compliance with development effectiveness principles
- EFSD should be used exclusively to support local companies, especially SMEs.

### Legislative process

The [proposal](#) was forwarded to the European Parliament and the Council on 14 September 2016. The file was initially allocated to Parliament's Development (DEVE) Committee, however given the transversal nature and the importance of the issue covered by the proposal, it was decided, under [Rule 55](#), that the Development, Foreign Affairs and Budget Committees should work on equal footing. The three rapporteurs will draw up a single draft report, which shall be examined and voted on by the committees concerned, under the joint chairmanship of the three committee chairs. According to a provisional timetable, the joint vote could take place on 24-25 April.

On 13 December, the Council adopted its [negotiating position](#) in the form of a partial general approach (partial because financial amounts are in brackets, pending the MFF review). The Council position sees the EIB's role in the operational management of the EFSD guarantee reinforced and embodied in a specific agreement with the Commission. It also contains a proposal to earmark at least 20 % of the funding for sectors contributing to the implementation of the Paris Agreement on Climate Change, and stresses the need for all actions under the EFSD regulation to fulfil the ODA-DAC criteria.

### EP supporting analysis

Latek, M., Briefing, [Growing impact of EU migration policy on development cooperation](#), EPRS, European Parliament, October 2016.

### Other sources

[European Fund for Sustainable Development \(EFSD\), EFSD Guarantee and EFSD Guarantee Fund](#), European Parliament, Legislative Observatory (OEIL).

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