

Brussels, 28-06-2017

COUNCIL OF
THE EUROPEAN
UNION

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B - 1048 Brussels

Mrs. Linda McAvan
Chair, European Parliament Committee on Development (DEVE)
M. Jean Arthuis
Chair, European Parliament Committee on Budget (BUDG)
M. David McAllister
Chair, European Parliament Committee on Development (AFET)

BRUSSELS.

Subject: 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

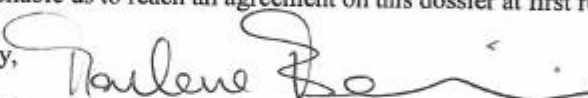
Dear Mrs McAvan, dear Mr Arthuis, dear Mr McAllister

Following the informal meeting between the representatives of the three institutions, a draft overall compromise package was agreed today by the Permanent Representatives' Committee.

I am therefore now in a position to confirm that, should the European Parliament adopt its position at first reading, in accordance with Article 294 paragraph 3 of the Treaty, in the exact form as set out in the compromise package contained in the Annex to this letter (subject to the revision by the legal-linguistic experts of both institutions), the Council would, in accordance with Article 294, paragraph 4 of the Treaty, approve the European Parliament's position and the act shall be adopted in the wording which corresponds to the European Parliament's position.

On behalf of the Council, I also wish to thank you for your close cooperation which should enable us to reach an agreement on this dossier at first reading.

Yours sincerely,



Marlene Bonnici
Chairman of the Permanent Representatives Committee (Part 2)

copy to: Mr. Neven Mimica, Commissioner for Development
Mr. Johannes Hahn, Commissioner for Neighbourhood policy
and Enlargement negotiations

EP co-rapporteurs: Mrs. Elder Gardiazabal Rubial (BUDG);
Doru-Claudian Frunzulica (DEVE); Eduard Kukan (AFET)

REGULATION (EU) 2017/...
OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of ...

**on the European Fund for Sustainable Development (EFSD) and establishing the EFSD
Guarantee and the EFSD Guarantee Fund**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular
Articles 209(1) and 212(2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) *The Union's External Investment Plan (EIP) provides for the creation of the European Fund for Sustainable Development (EFSD) as its first pillar, alongside technical assistance (second pillar) and improving investment climate and overall policy environment in partner countries (third pillar).*

- (2) The *EFSD aims* to support investments *primarily* in Africa and the Union's Neighbourhood as a means to *contribute to the achievement of* the Sustainable Development Goals of the 2030 Agenda, *in particular poverty eradication*, as well as the commitments under the recently revised European Neighbourhood Policy, thus addressing *specific socio-economic* root causes of migration, *including irregular migration, and contribute to the sustainable reintegration of migrants returning to their countries of origin, and strengthening transit and host communities*. *The EFSD, as part of the EIP*, should also contribute to the implementation of the Paris Agreement on Climate Change (Paris Agreement).
- (3) *Investments under the EFSD should complement and reinforce efforts carried out in the context of the Union's migration policy with third countries, including, where appropriate, the implementation of the New Partnership Framework with Third Countries under the European Migration Agenda.*

- (4) *The EFSD should be guided by the objectives of Union external action set out in Article 21 of the Treaty on European Union (TEU) and of Union development cooperation policy set out in Article 208 TFEU. It should also allow ■ investors and private companies, in particular micro, small and medium-sized enterprises, to contribute more effectively to sustainable development in partner countries in line with Union development and neighbourhood policies. The EFSD should maximise additionality, address market failures and sub-optimal investment situations, deliver innovative products and crowd in private sector funds. EFSD operations should be clearly distinct from, and complementary to, other support, including the European Investment Bank's external lending mandate operations and Economic Resilience Initiative, and the ACP Investment Facility. They should also be complementary to the existing activities of other eligible financial institutions.*
- (5) *The EFSD should contribute to the implementation of the 2030 Agenda, which recognises international migration as a multi-dimensional reality of major relevance for the development of countries of origin, transit and destination, requiring coherent and comprehensive responses, while underlining the potential for migrants to contribute to inclusive growth and sustainable development. Investments will contribute towards addressing migratory pressures stemming from poverty, conflict, instability, underdevelopment, inequality, human rights violations, demographic growth, lack of employment and economic opportunities as well as from climate change.*

- (6) *The EFSD should be in line with the Union commitment under the Addis Ababa Action Agenda on Financing for Development and the internationally agreed development effectiveness principles.*
- (7) *The purpose of the EFSD is in line with the Union Global Strategy for Foreign and Security Policy which embeds challenges such as migration and resilience in the overall EU foreign policy, ensuring that Union external policy is fully coherent with the objectives of development policy and ensuring synergies with European development and Neighbourhood policies. Its purpose is also in line with the Charter of Fundamental Rights of the European Union and international human rights law, ensuring a human rights-based approach while addressing forced displacement and irregular migration.*
- (8) *The EFSD should foster decent job creation, economic opportunities and entrepreneurship, and green and inclusive growth with particular focus on gender equality and the empowerment of women and young people in line with the Union's Gender Action Plan 2016-2020, while strengthening the rule of law, good governance, human rights and equitable access to and use of natural resources.*

- (9) *Involvement of the private sector in the Union's cooperation with partner countries through the EFSD should yield measurable and additional development impact, without distorting the market and should be cost-effective, based on mutual accountability and risk and cost sharing. Such involvement should build on a commitment to internationally agreed guidelines and principles, including the Principles for Responsible Investment and the United Nations Guiding Principles on Business and Human Rights and the Organisation for Economic Cooperation and Development's (OECD) Guidelines for Multinational Enterprises.*
- (10) *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 under the EFSD should be devoted to financing and investment operations relevant for these sectors.*
- (11) *Actions under this Regulation should be designed in such a way so as to: fulfil the criteria for Official Development Assistance (ODA) established by the Development Assistance Committee (DAC) of the OECD, taking into account the specificities of private sector development; reflect the needs of countries identified as experiencing fragility or conflict, LDCs and heavily indebted poor countries; provide appropriate support to investments in the Southern and Eastern Neighbourhood.*

- (12) *Technical assistance to partner countries should constitute the second pillar of the EIP. In this context, the Commission should step up assistance in order to help partner countries attract investment by better preparing and promoting projects, developing a higher number of bankable projects and making them known to the international investor community. A project web-portal, in the form of a publicly accessible and user-friendly database, should be established to provide relevant information for each project.*
- (13) *The improvement of the investment climate and overall policy environment in partner countries should constitute the third pillar of the EIP. In the context of the Union's existing political relations with partner countries, the Commission and the High Representative of the Union for Foreign Affairs and Security Policy (High Representative) should maintain policy dialogues aimed at developing legal frameworks, policies and institutions that promote economic stability, sustainable investment and inclusive growth. Those policy dialogues should cover, inter alia, the fight against corruption, organised crime and illicit financial flows, good governance, the inclusion of local markets, the boosting of entrepreneurship as well as local business settings, the respect for human rights and the rule of law as well as gender-responsive policies.*

- (14) The *EFSD* should be composed of regional investment platforms, which *should be established on the basis of the working methods, procedures and structures of the existing external blending facilities of the Union and which should combine their blending operations* and the EFSD Guarantee. *The EFSD Guarantee should support financing and investment operations in partner countries in Africa and the Neighbourhood.*
- (15) *In the light of the findings of the Court of Auditors regarding the use of blending in the external relations of the Union, it is essential that blending be used where its added value can clearly be demonstrated.*

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- (16) A strategic board of the EFSD *should be created to support the Commission in setting strategic guidance and overall investment goals as well as in ensuring an appropriate and diversified geographical and thematic coverage for investment windows. The strategic board should* support overall coordination, *complementarity* and coherence between the regional investment platforms, *between the three pillars of the EIP, between the EIP and the Union's other efforts on migration and on the implementation of the 2030 Agenda, as well as with the relevant Union external financing instruments and trust funds as well as* with the external lending mandate operations managed by the EIB, including the EIB resilience initiative *and the ACP Investment Facility, without prejudice to the internal rules of governance of the EIB.*
- (17) The strategic board should be composed of representatives of the Commission and of the High Representative, of *all* Member States and of the EIB. *The European Parliament should have observer status. Contributors, eligible counterparts,* partner countries, relevant regional organisations *and other stakeholders* may be given observer status, where appropriate. *The strategic board should adopt its rules of procedure. The rules of procedure should define the framework for the involvement of observers, having regard to their respective status and roles.*

- (18) *The Commission and the EIB should conclude an agreement specifying the conditions of their cooperation in the management of the EFSD Guarantee and should present that agreement to the strategic board.*
- (19) *Each regional investment platform should have an operational board, which should draw on the experience of the operational boards of the existing blending facilities. The operational boards should provide support to the Commission in the implementation of this Regulation. They should support the Commission in defining and monitoring regional and sectorial investment goals, regional, sectorial and thematic investment windows, formulating opinions on the blending operations and discussing the use of the EFSD Guarantee in line with the investment windows to be defined.*
- (20) *An appropriate level of information to the European Parliament and the Council should be ensured in respect of the orientation of the use of the EFSD Guarantee through the establishment of investment windows.*
- (21) *The EFSD should operate as a ‘one-stop-shop’, receiving financing proposals from financial institutions and public or private investors and delivering a wide range of financial support to eligible investments. The EFSD Guarantee should be backed by the EFSD Guarantee Fund.*

- (22) *The EFSD should deploy innovative instruments to support investments and involve the private sector in particular micro-, small- and medium-sized enterprises. It should also allow European investors and private companies, including micro-, small- and medium-sized enterprises, to participate more effectively in efforts to achieve sustainable development in partner countries. Bottlenecks and obstacles to investments need to be addressed in this respect.*
- (23) *The EFSD Guarantee should privilege funding projects which have a high impact on job creation and whose cost-benefit ratio enhances the sustainability of investment. When supporting operations with the EFSD Guarantee, an in-depth ex ante assessment of environmental, financial and social aspects should be carried out. The EFSD Guarantee should not be used to replace government responsibility for providing essential public services.*
- (24) *European Union delegations in partner countries should include information about EFSD funding opportunities in their communication targeted at civil society and the general public and contribute to the coherence between the pillars of the EIP.*

- (25) The EFSD Guarantee should be granted to eligible counterparts for financing and investment operations or guarantee instruments for an initial investment period up to 31 December 2020.
- (26) In order to provide for flexibility, increase the attractiveness for the private sector and maximise the impact of the investments it is appropriate to provide for a derogation from Article 58(1)(c)(vii) of Regulation (EU) No 966/2012 of the European Parliament and the Council¹ by which the eligible counterparts who are bodies governed by private law could also be bodies which are not entrusted with the implementation of a public-private partnership and could also be bodies governed by the private law of a partner country.
- (27) The Commission should conclude guarantee agreements with the eligible counterparts setting out the specific provisions under which the EFSD Guarantee is granted to them. These guarantee agreements should provide the legal basis for adequate risk sharing, thus providing incentives for the eligible counterparts to provide financing, as well as the mechanisms and procedures for potential calls on the EFSD Guarantee.

¹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

- (28) The Union should make available a guarantee of EUR 1 500 000 000 to establish the EFSD Guarantee. Member States and other contributors *should be* invited to contribute further to support the EFSD Guarantee Fund in the form of cash (Member States and other contributors) or guarantees (Member States) in order to increase the liquidity cushion and thus allow the increase of the total volume of EFSD Guarantee. ■ Member States, public financial institutions and other contributors should be invited to provide additional funding to the EFSD Guarantee Fund under conditions that should be established in an agreement to be concluded between the Commission on behalf of the Union and ■ the *contributor*.
- (29) The EFSD Guarantee Fund should be established as a liquidity cushion in the event of a call on the EFSD Guarantee. To reach a level that adequately reflects EU financial liabilities in relation to the EFSD Guarantee, the Union should make available EUR 750 000 000.
- (30) In order to increase the impact of the EFSD Guarantee in view of the needs in the regions concerned, Member States *and EFTA countries* should have the possibility of providing contributions in the form of a guarantee or cash.

- (31) As the funds of the EDF are to be used ■ , a minimum of EUR 400 000 000 of EFSD Guarantee coverage *should be allocated for investments in partner countries eligible under the 11th European Development Fund (EDF)* throughout the implementation period of the EFSD Guarantee. The EFSD Guarantee should only become available when *a contribution of EUR 400 000 000 of 11th EDF funds ■ to the EFSD Guarantee Fund has been confirmed.*
- (32) *As the funds of the European Neighbourhood Instrument, established by Regulation (EU) No 232/2014 of the European Parliament and of the Council, are to be used, a minimum of EUR 100 000 000 of the EFSD Guarantee coverage should be allocated for investments in the partner countries from the Eastern and Southern Neighbourhood throughout the implementation period of the EFSD Guarantee.*

- (33) The Commission should report annually to the European Parliament and the Council on the financing and investment operations covered by the EFSD Guarantee, with a view to ensuring *full* accountability to the European citizens *and scrutiny and control by the European Parliament and the Council*. The report should be made public in order to allow relevant stakeholders, including civil society, to express their views. The Commission should also report annually to the European Parliament and the Council on the management of the EFSD Guarantee Fund so that accountability, transparency are ensured. *The Commission should also inform the ACP-EU Council and the ACP-EU Joint Parliamentary Assembly as regards the use of the EDF funds.*
- (34) *In order to ensure the monitoring and accountability of the EFSD and of the EIP, the European Parliament or the Council may organise hearings as part of a dialogue with the Commission, the High Representative, the EIB and other eligible financial institutions as well as private sector and civil society organisations.*

- (35) In order to take into account lessons learned and allow for further evolvement of the EFSD, the functioning of the EFSD and the use of the EFSD Guarantee Fund should be evaluated by the Commission *and external evaluators and subjected to an annual consultation process with relevant stakeholders, including civil society organisations*. The application of this Regulation should be evaluated independently in order to assess the level of conformity of the implementation with the legal basis, but also to establish the applicability and practicability of the Regulation in the achievement of its objectives.
- (36) In order to protect the financial interests of the Union, with a view to establishing whether there has been fraud, corruption, money laundering or any other illegal activity affecting the financial interests of the Union in connection with any financing and investment operations covered by this Regulation, the European Anti-Fraud Office (OLAF) is entitled to carry out investigations in accordance with Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council², Council Regulation (Euratom, EC) No 2185/96³ and Council Regulation (EC, Euratom) No 2988/95.⁴

² Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

³ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

⁴ Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

(37) *Financing and investment operations supported by the EFSD should adhere to the relevant EU policy on non-cooperative jurisdictions for tax purposes which is laid down in the legal acts of the Union and Council Conclusions, notably those of 8 November 2016, in particular in their Annex, and any subsequent updates.*

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HAVE ADOPTED THIS REGULATION:

CHAPTER I
INTRODUCTORY PROVISIONS

Article 1

Subject matter

1. This Regulation establishes the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.
2. For the purposes of paragraph 1, this Regulation provides for the Commission on behalf of the Union to conclude guarantee agreements with the eligible counterparts as defined in Article 10.

Article 2

Definitions

For the purposes of this Regulation, the following definitions apply:

- (1) ‘regional investment platforms’ means blending facilities in line with Article 4(1)(e) of Regulation (EU) No 236/2014 of the European Parliament and the Council⁵ and with Article 40 of Council Regulation (EU) 2015/323⁶ for the contribution from the 11th European Development Fund (EDF) combined with the granting of the EFSD Guarantee as set out in Article 6.

⁵ Regulation (EU) No 236/2014 of the European Parliament and the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union’s instruments for financing external action (OJ L 77, 15.03.2014, p. 95).

⁶ Council Regulation (EU) 2015/323 of 2 March 2015 on the financial regulation applicable to the 11th European Development Fund (OJ L 58, 03.03.2015, p. 17).

- (2) ‘investment window’ means a targeted area for support by the EFSD Guarantee to portfolios of investments in specific regions, countries or sectors and implemented via the regional investment platforms;
- (3) ‘contributor’ means a Member State, an international financial institution or a public institution of a Member State, a public agency or other entities contributing in cash grants or in guarantees to the EFSD Guarantee Fund;
- (4) ‘partner countries’ means countries that are signatories to the Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its member States, of the other part, signed in Cotonou on 23 June 2000⁷, countries that are listed in Annex I to Regulation (EU) No 232/2014 of the European Parliament and of the Council⁸ as well as countries that are eligible for geographic cooperation under Regulation (EU) No 233/2014 of the European Parliament and of the Council⁹.

⁷ OJ L 317, 15.12.2000 as last amended by OJ L 287, 4.11.2010

⁸ Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument (OJ L 77, 15.3.2014, p. 27).

⁹ Regulation (EU) No 233/2014 of the European Parliament and of the Council of 11 March 2014 establishing a financing instrument for development cooperation for the period 2014-2020 (OJ L 77, 15.3.2014, p. 44).

- (5) ‘additionality’ means the principle ensuring that the EFSD Guarantee support *contributes to sustainable development by operations which could not have been carried out without the EFSD Guarantee, or which achieve positive results above and beyond what could have been achieved without it. Additionality also means crowding in private sector funding and* addressing market failures *or sub-optimal investment situations as well as improving the quality, sustainability, impact or scale of an investment. EFSD Guarantee operations shall not replace* the support of a Member State, private funding or another Union *or international* financial intervention, *and shall avoid* crowding out other public or private investments. *Projects supported by the EFSD Guarantee typically have a higher risk profile than the portfolio of investments supported by the eligible counterparts under their normal investment policies without the EFSD Guarantee.*

CHAPTER II
EUROPEAN FUND FOR SUSTAINABLE DEVELOPMENT

Article 3

Purpose

1. The purpose of the EFSD as an integrated financial package, ***supplying*** financing capacity in the form of grants, guarantees and other financial instruments to eligible counterparts, ***shall be to support*** investments and increased access to financing, ***primarily in Africa and the European Neighbourhood, in order to foster sustainable and inclusive economic and social development and promote the socio-economic resilience of partner countries, including, where appropriate, in the context of the European Neighbourhood Policy and the New Partnership Framework with Third Countries under the European Agenda on Migration, with a particular focus on sustainable and inclusive growth, creation of decent jobs, youth and women, socio-economic sectors and micro, small and medium sized enterprises while maximising additionality, delivering innovative products and crowding in private sector funds.***

2. The EFSD shall *be guided by the objectives of Union external action set out in Article 21 of the Treaty on European Union (TEU) and of Union development cooperation policy set out in Article 208 TFEU and the internationally agreed development effectiveness principles. It shall* contribute to the achievement of the Sustainable Development Goals of the 2030 Agenda, *in particular poverty eradication and, where appropriate, contribute to the implementation of the European Neighbourhood Policy*, thus addressing *specific socio-economic* root causes of migration and *fostering* sustainable reintegration of migrants *returning to* their countries of origin, *and strengthening transit and host communities.*
3. *The EFSD shall contribute to the implementation of the Paris Agreement by also targeting investments to sectors that advance climate change mitigation and adaptation.*
4. *The EFSD shall be consistent with the objectives set out in the external financing instruments established by Regulations (EU) 2014/232, (EU) 2014/233, and EDF Regulation (EU) 2015/323 and with the priorities contained in the national or regional programmes and strategy papers, where available.*

Article 4
Structure of the EFSD

1. The EFSD shall be composed of regional investment platforms, ***established on the basis of the working methods, procedures and structures of the*** existing *external* blending facilities ***of the Union and which shall combine their blending operations*** and the EFSD Guarantee.

2. The management of the EFSD shall be ensured by the Commission. ***The Commission shall work in close cooperation with the EIB supported by other eligible counterparts as regards the operational management of the EFSD Guarantee. To that end, a technical assessment group on the Guarantee shall be established.***

Article 5

Strategic board of the EFSD

1. In the management of the EFSD the Commission shall be *advised* by a strategic board.
2. ***The strategic board shall advise the Commission on the strategic orientations and priorities of EFSD Guarantee investments and contribute to their alignment with the guiding principles and objectives of the Union external action, neighbourhood and development policy, as well as with the purpose of the EFSD as set out in Article 3. It shall also support the Commission in setting overall investment goals as regards the use of the EFSD Guarantee and monitor an appropriate and diversified geographical and thematic coverage for investment windows while giving special attention to countries identified as experiencing fragility or conflict, Least Developed Countries and heavily indebted poor countries.***

3. The strategic board shall also support overall coordination, *complementarity* and coherence between the regional investment platforms, *between the three pillars of the EIP, between the EIP and the Union's other efforts on migration and on the implementation of the 2030 Agenda, as well as with the relevant Union external financing instruments and trust funds as well as* with the external lending mandate operations managed by the EIB, including the EIB resilience initiative *and the ACP Investment Facility, without prejudice to the internal rules of governance of the EIB.*

4. The strategic board shall be composed of representatives of the Commission and of the High Representative, of all Member States and of the EIB. *The European Parliament shall have observer status. Contributors, eligible counterparts,* partner countries, relevant regional organisations *and other stakeholders* may be given observer status, where appropriate. *The strategic board shall be consulted prior to the inclusion of any new observer.* The strategic board shall be co-chaired by the Commission and the High Representative.

5. *The strategic board shall meet at least twice a year and, when possible, adopt opinions by consensus. Additional meetings may be organised at any time by the chair and upon request of one third of its members. In case consensus cannot be achieved, voting rights, taking due account of the source of financing, shall apply as agreed during the first meeting of the strategic board and laid down in its rules of procedure. The rules of procedure shall set out the framework regarding the role of observers. The minutes and agendas of the meetings of the strategic board shall be made public, following their adoption.*
6. *The Commission shall report annually to the strategic board about the progress made. The strategic board shall regularly organise a consultation of relevant stakeholders on the orientation and implementation of the EFSD.*
7. *During the implementation phase of the EFSD, the strategic board shall, as soon as possible, adopt and publish guidelines setting out how conformity of EFSD operations with the objectives and eligibility criteria set out in Article 8 is to be ensured.*
8. *In its strategic guidance, the strategic board shall take due account of relevant European Parliament resolutions and Council decisions and conclusions.*

Article 5a
Regional operational boards

Each regional investment platform shall have an operational board. Operational boards shall support the Commission at the implementation level in defining regional and sectoral investment goals and regional, sectoral and thematic investment windows and shall formulate opinions on blending operations and on the use of the EFSD Guarantee.

CHAPTER III
EFSD GUARANTEE AND EFSD GUARANTEE FUND

Article 6
The EFSD Guarantee

1. The Union shall, *after careful consideration of the viability of a project*, provide an irrevocable and unconditional guarantee on first demand to the eligible counterpart for the financing and investment operations covered by this Regulation.
 - 1a. *The EFSD Guarantee shall support financing and investment operations in partner countries in Africa and the Neighbourhood.*
2. The EFSD Guarantee shall be granted as a guarantee on first demand in respect of the instruments referred to in Article 9 and in compliance with the eligibility criteria referred to in Article 8.

Article 7

Requirements for the use of the EFSD Guarantee

1. The granting of the EFSD Guarantee shall be subject to the conclusion of the respective EFSD guarantee agreement between the Commission on behalf of the Union and the eligible counterpart.
2. The ■ investment period during which the EFSD guarantee agreements for supporting financing and investment operations can be concluded with the eligible counterparts shall last until 31 December 2020.
3. The maximum period allowed for eligible counterparts to conclude agreements with *co-financing private sector partners*, financial intermediaries or final beneficiaries shall be four years after the conclusion of the relevant guarantee agreement.

Article 8

Eligibility criteria for the use of the EFSD Guarantee

1. The financing and investment operations eligible for support through the EFSD Guarantee ***in accordance with the purpose of the EFSD as provided for in Article 3*** shall be consistent and aligned with Union policies, in particular development and neighbourhood policies of the Union, ***as well as with*** the partner countries' strategies and policies. ***Such operations shall take into account other Union and international support to ensure complementarity with other initiatives and shall support*** the following objectives:
 - (a) contribute to ***sustainable development in its economic, social and environmental dimensions, and to the implementation of the 2030 Agenda for Sustainable Development and, where appropriate, the European Neighbourhood Policy***, with particular focus on ***the eradication of poverty, creation of decent jobs, economic opportunities, skills and entrepreneurship, promoting in particular gender equality and the empowerment of women and young people, while pursuing and strengthening the rule of law, good governance and human rights;***

- (aa) *contribute to the implementation of the Union's migration policy, including, where appropriate, the New Partnership Framework with Third Countries;*
- (ab) *contribute, by promoting sustainable development, to addressing specific root causes of migration, including irregular migration, as well as foster resilience of transit and host communities, and contribute to the sustainable reintegration of migrants returning to their countries of origin, with due regard to the strengthening of the rule of law, good governance and human rights;*
- (b) *strengthen* socio-economic sectors, in particular *public and private* infrastructure including *renewable and* sustainable energy, water *and waste management*, transport, information and communications technologies, *as well as* environment, sustainable use of natural resources, *sustainable agriculture* and blue growth, social infrastructure, *health*, human capital, in order to improve the socio-economic environment;
- (c) provide finance *and support to private and cooperative sector development, with a particular focus on local companies and* micro, small and medium-sized enterprises, *while addressing market failures and limiting market distortions and encouraging the contribution of European companies to the EFSD objectives;*

- (d) *address* bottlenecks to private investments *by providing financial instruments*, including first loss guarantees to portfolios guarantees to private sector projects such as loan guarantees for small and medium-sized enterprises and guarantees for specific risks for infrastructure projects and other risk capital; *financial instruments provided may be denominated in the local currency of the partner country concerned*;
- (e) *leverage* private sector *financing, with a particular focus on micro-, small-, and medium-sized enterprises*, by addressing bottlenecks *and obstacles* to investment;
- (ea) *contribute to climate action and environmental protection and management, thus producing climate co-benefits, allocating at least 28 % of the financing to investments that contribute to climate action, renewable energy and resource efficiency.*

2. The EFSD Guarantee shall support financing and investment operations which *address market failures or sub-optimal investment situations and which*:

- (a) provide additionality;
- (aa) *ensure complementarity with other initiatives, making sure that EFSD guarantee operations are clearly distinct, in particular from the external lending mandate operations managed by the EIB*;

- (b) ensure alignment of interest by providing adequate risk sharing by the respective eligible counterpart and other prospective partners;
- (c) are economically and financially viable, *with due regard to* the possible support from, and co-financing by, private and public partners to the project, *while taking into account the specific operating environment and capacities of countries identified as experiencing fragility or conflict, Least Developed Countries and heavily indebted poor countries where more concessional terms can be given*;
- (d) are technically viable and are sustainable from an environmental and social point of view; and
- (e) maximise, *where possible*, the mobilisation of private sector capital;
- (ea) *respect the principles of development effectiveness as set out in the Busan Partnership for Effective Development Cooperation and reaffirmed in Nairobi in December 2016, including, ownership, alignment, focus on results, transparency and mutual accountability, as well as the objective of untying aid*;

- (eb) *are designed so as to fulfil the criteria for ODA established by the Development Assistance Committee of the OECD, taking into account the specificities of private sector development; and*
- (ec) *are implemented in full respect of internationally agreed guidelines, principles and conventions including the UN Principles for Responsible Investment, UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, and the UN Food and Agriculture Organisation's Principles for Responsible Investment in Agriculture and Food Systems, and International Labour Organisation conventions, as well as international human rights law.*
3. On a case by case basis *operations may combine* financing from different Union instruments *to the extent that it is needed for the success of the investment project backed by the EFSD and as long as this does not lead to reduced financing for other developmental objectives.*

4. ***Taking due account of the advice provided by the strategic board, after consultation with the operational boards and after informing the European Parliament and the Council, the Commission shall define investment windows for specific regions or partner countries or for both, for specific sectors, for specific projects or for specific categories of final beneficiaries or for both to be funded by instruments referred to in Article 9 to be covered by the EFSD Guarantee up to a fixed amount. The information to the European Parliament and Council shall specify how the investment windows are aligned with the requirements set out in Articles 3 and 8 and their detailed funding priorities. The EIB should provide a written opinion on banking related matters to accompany each proposal for investment windows.*** All requests for financial support within investment windows shall be made to the Commission.

The choice of investment windows shall be duly justified by an analysis of the market failure or sub-optimal investment situations. Such analysis shall be carried out by the Commission in cooperation with potentially eligible counterparts and stakeholders.

Within the Africa Investment Platform, a significant share of the EFSD Guarantee shall be allocated to fragile and conflict-affected countries, landlocked countries and Least-Developed Countries.

The Commission shall assess the operations supported by the EFSD guarantee against the eligibility criteria established in Article 8(1) and 8(2), where possible drawing on eligible counterparts' existing result measurement systems. It shall publish the result of its assessment for each investment window on an annual basis.

Article 9

Eligible instruments for the EFSD Guarantee

1. The EFSD Guarantee shall be used to cover the risks for the following instruments:
 - (a) loans, *including local currency loans*;
 - (b) guarantees;
 - (c) counter-guarantees;
 - (d) capital market instruments;
 - (e) any other form of funding or credit enhancement, *insurance*, equity, quasi-equity participations.

2. The instruments listed in paragraph 1 may be provided by eligible counterparts ■ under an investment window or individual project administered by an eligible counterpart. ***They may be provided*** for the benefit of partner countries, including countries ***experiencing fragility or conflict or facing challenges in reconstruction and post-conflict recovery***, and these partner countries' institutions, including their public national and private local banks and financial institutions as well as private sector entities of ***these*** partner countries. ***In countries experiencing fragility or conflict, as well as other countries when justified, support may be provided to public sector investments that have relevant effects on private sector development.***

Article 10

Eligibility and selection of counterparts

1. The eligible counterparts for the purposes of the EFSD Guarantee shall be:
 - (a) the European Investment Bank and the European Investment Fund;
 - (b) public law bodies;
 - (c) international organisations and their agencies;
 - (d) bodies governed by private law with a public service mission to the extent that they provide adequate financial guarantees;
 - (e) bodies governed by the private law of a Member State that provide adequate financial guarantees, by derogation from Article 58(1)(c)(vii) of Regulation (EU) No 966/2012;
 - (f) bodies governed by the private law of a partner country that provide adequate financial guarantees, by derogation from Article 58(1)(c)(vii) of Regulation (EU) No 966/2012.

2. Eligible counterparts shall comply with the rules and conditions provided for in Article 60 of Regulation (EU, Euratom) No 966/2012. *For bodies governed by the private law of a Member State or a partner country, preference shall be given to those that provide disclosure of information related to Environment, Social and Corporate Governance criteria.*

The guarantee shall be implemented whenever possible under the lead of a European eligible counterpart in line with the criteria set out in this regulation. The Commission shall ensure an effective, efficient and fair use of resources available among eligible counterparts, while promoting cooperation between them.

The Commission shall ensure fair treatment for all eligible counterparts and shall ensure that conflicts of interest are avoided throughout the stages of implementation of the EFSD. In order to ensure complementarity, the Commission may request any relevant information from eligible counterparts about their non-EFSD operations.

3. The Commission shall select the eligible counterparts pursuant to Article 61 of Regulation (EU, Euratom) No 966/2012.
- 3a. *Eligible counterparts may be invited to an exchange of views by the European Parliament or the Council concerning financing and investment operations covered by this Regulation.*

Article 11

Coverage and terms of the EFSD Guarantee

1. The EFSD Guarantee shall not, at any time, exceed EUR 1 500 000 000 without prejudice to paragraph 2.
2. Member States *and EFTA countries* may contribute to the EFSD Guarantee Fund in the form of guarantees or cash. Subject to *the opinion of the strategic board and* Commission approval, other contributors may contribute, in the form of cash.

The amount of the Guarantee exceeding the amount indicated in paragraph 1 shall be granted on behalf of the Union.

Aggregate net payments from the general budget of the Union under the EFSD Guarantee shall not exceed EUR 1 500 000 000. Payments for guarantee calls shall be made, where necessary, by the contributing Member States or other contributors on *pari passu* basis with the Union, without prejudice to paragraph 4.

A contribution agreement shall be concluded between the Commission, on behalf of the Union, and the contributor, which shall contain, in particular, provisions concerning the payment conditions.

3. The EFSD Guarantee shall only become available when a contribution in cash of EUR 400 000 000 from the 11th European Development Fund (EDF)¹⁰ to the general budget of the Union has been confirmed.

The Member States may contribute to the EFSD Guarantee in the form of guarantees or cash.

The Commission shall inform the European Parliament and the Council *without delay* about the contributions confirmed.

4. The contributions made by the Member States in the form of a guarantee may only be called for payments of guarantee calls after the funding from the general budget of the Union increased by any other cash contributions has been used on payments of guarantee calls.

At the request of the Member States *in the strategic board*, the contributions made by them may be earmarked for the initiation of projects in specific regions, countries, sectors or *existing* investment windows.

Any contribution may be used to cover guarantee calls regardless of earmarking.

¹⁰ Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting within the Council, on the financing of European Union aid under the multiannual financial framework for the period 2014 to 2020, in accordance with the ACP-EU Partnership Agreement and on the allocation of financial assistance for the Overseas Countries and Territories to which Part Four of the Treaty on the Functioning of the European Union applies, OJ L 210, 6.8.2013, p. 1.

5. At least EUR 400 000 000 of EFSD Guarantee coverage shall be allocated for investments in the partner countries eligible under the 11th EDF throughout the implementation period of the EFSD Guarantee, ***in line with the objectives of the Cotonou Partnership Agreement.***

5a. ***At least EUR 100 000 000 of EFSD Guarantee coverage shall be allocated for investments in the partner countries from the Eastern and Southern Neighbourhood, in line with Regulation (EU) No 232/2014 of the European Parliament and of the Council.***

Article 12

Implementation of the EFSD guarantee agreements

1. The Commission on behalf of the Union shall conclude EFSD guarantee agreements with the eligible counterparts selected pursuant to Article 10 and paragraph 4, on the granting of the EFSD Guarantee, which shall be unconditional, irrevocable, at first demand, in favour of the selected eligible counterpart.
2. One or more guarantee agreements shall be concluded for each investment window between the Commission and the eligible counterpart or eligible counterparts selected. In order to address specific needs, the EFSD Guarantee may be granted for individual financing or investment operations. Agreements can be concluded with a consortium of two or more eligible counterparts.

All guarantee agreements shall be made available to the European Parliament and the Council upon request, taking into account the protection of confidential and commercially sensitive information.

3. The guarantee agreements shall contain, in particular, provisions concerning the following:
- (a) detailed rules on the provision of the EFSD Guarantee, including its arrangements on the coverage and its defined coverage of portfolios and of projects of specific types of instruments *as well as a risk analysis of project and portfolio, including on sectoral, regional and national levels;*
 - (aa) *the objectives and purpose of this Regulation, a needs assessment and an indication of the expected results, taking into account the promotion of corporate social responsibility and responsible business conduct, including, in particular through respect of the internationally agreed guidelines, principles and legal instruments referred to in Article 8(2)(ec);*
 - (b) the remuneration of the guarantee, *which shall reflect the risk level; it shall be possible for the remuneration to be partly subsidised in order to give more concessional terms, in duly justified cases, in particular in the countries referred to in point (c) of Article 8(2);*

- (c) requirements for the use of the EFSD Guarantee, including payment conditions, such as specific time frames, interest to be paid on due amounts, expenses and recovery costs and possibly necessary liquidity arrangements;
- (d) *claims procedures, including but not limited to triggering events and waiting periods; and* provisions and procedures regarding the recovery of claims;
- (e) provisions regarding the monitoring, reporting and evaluation obligations pursuant to Articles 15 and 16;
- (ea) *clear and accessible complaints procedures for third parties that could be affected by the implementation of the EFSD Guarantee projects.*

4. The Commission, *when concluding* guarantee agreements with eligible counterparts, *shall take* due account of:

(-aa) the advice and guidance of the boards, in accordance with articles 4 and 5;

- (a) the objectives of the investment window;
- (b) the experience, operational, financial *and risk management* capacity of the counterpart;
- (c) the amount of own resources *as well as private sector co-financing* that the counterpart is ready to mobilise for the investment window.

5. The approval of financing and investment operations shall be made by the eligible counterpart following its own rules and procedures and in compliance with the terms of the guarantee agreement.
6. The EFSD Guarantee may cover:
 - (a) for debt instruments the principal and all interests and amounts due to the selected eligible counterpart, but not received by it in accordance with the terms of the financing operations after an event of default has occurred;
 - (b) for equity investments the amounts invested and their associated financing costs;
 - (c) for other financing and investment operations referred to in Article 8(2) the amounts used and their associated funding costs;
 - (d) all relevant expenses and recovery costs related to an event of default, unless deducted from recovery proceeds.
7. The guarantee agreements shall lay down detailed rules on the cover, requirements, eligibility, eligible counterparts, and procedures.

Article 13

The EFSD Guarantee Fund

1. The EFSD Guarantee Fund shall constitute a liquidity cushion from which the eligible counterparts shall be paid in the event of a call on the EFSD Guarantee pursuant to the relevant EFSD guarantee agreement.

2. The EFSD Guarantee Fund shall be endowed by:
 - (a) contributions from the general budget of the Union and other sources;
 - (b) **voluntary** contributions from Member States and other contributors;
 - (c) returns on invested resources of EFSD Guarantee Fund ;
 - (d) amounts recovered from defaulting debtors in accordance with the recovery provisions laid down in the guarantee agreements;
 - (e) revenues and any other payments received by the Union in accordance with the guarantee agreements.

3. Revenues of the EFSD Guarantee Fund as provided for in points (c) and (e) of paragraph 2 shall constitute internal assigned revenue in accordance with Article 21(4) of Regulation (EU, Euratom) No 966/2012.
4. The resources of the EFSD Guarantee Fund referred to in paragraph 2 shall be directly ***managed by the Commission*** and invested in accordance with the principle of sound financial management and shall follow appropriate prudential rules. ***The Commission shall submit to the European Parliament and the Council by 30 June 2019 an independent external evaluation of the advantages and disadvantages of entrusting the financial management of the assets of the guarantee fund for external action and of the European fund for sustainable development to the Commission, EIB, or a combination of the two, taking into account the relevant technical and institutional criteria used in comparing asset management services, including the technical infrastructure, comparison of costs for the services given, institutional set-up, reporting, performance, accountability and expertise of each institution and the other asset management mandates for the EU Budget. The evaluation shall where appropriate be accompanied with a legislative proposal.***
5. Endowments to the EFSD Guarantee Fund shall be used to reach an appropriate level of provisioning to cover the total EFSD Guarantee obligations. The provisioning rate shall be at 50 % of the total EFSD Guarantee obligations covered by the general budget of the Union.
6. Following an assessment of the adequacy of the level of the EFSD Guarantee Fund in accordance with the report provided for under Article 15(3), the following payments shall be made:
 - (a) ***without prejudice to paragraph 8 of this Article***, any surplus shall be paid to the general budget of the Union;
 - (b) any replenishment of the EFSD Guarantee Fund shall be paid in annual tranches during a maximum period of three years starting from year n+1.

7. From 1 January 2021, if, as a result of calls on the EFSD Guarantee, the level of resources in the Guarantee Fund falls below 50 % of the provisioning rate referred to in paragraph 5, the Commission shall submit a report on:
- (a) *the cause of the shortfall, with detailed explanations; and*
 - (b) *where deemed necessary, any* exceptional measures that may be required to replenish the EFSD Guarantee Fund.
8. After a call on the EFSD Guarantee, endowments to the EFSD Guarantee Fund provided for in points (c), (d) and (e) of paragraph 2 exceeding the resources necessary to reach the provisioning rate at the level referred to in paragraph 5 *or any surplus provided for in point (a) of paragraph 6 of this Article* shall *first* be used within the limits of the *maximum* period provided for in Article 7(3) to restore the EFSD Guarantee up to its initial amount.

Article 14

Funding of the EFSD Guarantee Fund from the general budget of the Union

A contribution of EUR 350 000 000 shall be provided by the general budget of the Union.

CHAPTER IV
REPORTING, ACCOUNTING AND EVALUATION

Article 15

Reporting and accounting

1. The Commission shall submit an annual report to the European Parliament and to the Council on the financing and investment operation covered by the EFSD Guarantee. This report shall be made public. It shall include the following elements:
 - (-aa) an assessment of the results contributing to the purpose and objectives set out in Article 3 and Article 8(1) and (2);*
 - (a) an assessment of the financing and investment operations in operation and covered by the EFSD Guarantee, sector, country and regional levels and their compliance with this Regulation *including the risk measures and their impact on the financial and economic stability of the partners;*
 - (b) an assessment, *on the basis of the indicators provided for in Article 8(4a), of the additionality and* added value, the mobilisation of private sector resources, the estimated and actual outputs and the outcomes and impact of the financing and investment operations covered by the EFSD Guarantee on an aggregated basis, including the impact on *decent job* creation, *the eradication of poverty and on the way in which the root causes of migration, including irregular migration are addressed; this assessment shall include a gender analysis of the operations covered based on evidence and gender-disaggregated data where possible;*

- (c) an assessment of the compliance with the requirements concerning the use of the EFSD Guarantee and key performance indicators established for each proposal submitted;
- (d) an assessment of the leverage effect achieved by the operations covered by the EFSD Guarantee;
- (e) the financial amount transferred to beneficiaries and an assessment of financing and investment operations by each counterpart on an aggregated basis;
- (f) an assessment of the *additionality and* added value of financing and investment operations of the eligible counterparts, and of the aggregate risk associated with those operations;
- (g) detailed information on calls on the EFSD Guarantee, losses, returns, amounts recovered and any other payments received as well *as overall risk exposure*;

- (h) the financial reports on financing and investment operations of the eligible counterparts covered by this Regulation audited by an independent external auditor;
- (ha) an assessment of the synergies and complementarity between operations covered by the EFSD Guarantee and the second and third pillars of the EIP based on existing reports for the relevant instruments, with particular regard to progress made on good governance, including in the fight against corruption and illicit financial flows, respect for human rights, the rule of law and gender-responsive policies, as well as the boosting of entrepreneurship, local business environment and local financial markets;*
- (hb) an assessment of the compliance of EFSD Guarantee operations with the internationally agreed development effectiveness principles;*
- (hc) an assessment of the remuneration of the guarantees and of the implementation of Article 20.*

2. For the purposes of the Commission's accounting, its reporting of the risks covered by the EFSD Guarantee and its management of the EFSD Guarantee Fund, the eligible counterparts with whom a guarantee agreement has been concluded shall provide the Commission and Court of Auditors annually with the financial reports on financing and investment operations covered by this Regulation audited by an independent external auditor, containing, among other, information on:
- (a) the risk assessment of financing and investment operations of the eligible counterparts including information on the Union liabilities measured in compliance with the accounting rules of the Union set by the accounting officer of the Commission based on the internationally accepted accounting standards for the public sector;
 - (b) the outstanding financial obligation for the Union arising from the EFSD Guarantee provided towards the eligible counterparts and their financing and investment operations, broken down by individual operations.

The Counterparts shall upon request provide to the Commission any additional information necessary to fulfil the Commission's obligations in relation to this Regulation.

3. By 31 March of each year, the Commission shall submit to the European Parliament, to the Council and to the Court of Auditors, in the context of the financial statements of the Commission, the required information on the situation of the EFSD Guarantee Fund. In addition, it shall, by 31 May of each year, submit to the European Parliament, to the Council and to the Court of Auditors an annual report on the management of the EFSD Guarantee Fund in the previous calendar year, including an assessment of the adequacy of the provisioning and the level of the Guarantee Fund and of the need for its replenishment.

The annual report shall contain the presentation of the financial position of the EFSD Guarantee Fund at the end of the previous calendar year, the financial flows during the previous calendar year as well as the significant transactions and any relevant information on the financial accounts. The report shall also include information about the financial management, the performance, and the risk of the guarantee fund at the end of the previous calendar year.

Article 16

Evaluation and review

1. By 31 December **2019**, the Commission shall evaluate the initial functioning of the EFSD, ***its management and its effective contribution to the purpose and objectives of this Regulation***. The Commission shall submit its evaluation report to the European Parliament and the Council, containing an independent ***external*** evaluation of the application of this Regulation, ***accompanied by a reasoned proposal to amend this Regulation, as appropriate, in particular with a view to extending the initial investment period referred to in Article 7(2). That evaluation report shall be accompanied by an opinion of the Court of Auditors.***

2. By 31 December **2019** and every three years thereafter, the Commission shall evaluate the use ***and the functioning*** of the EFSD Guarantee Fund. The Commission shall submit its evaluation report to the European Parliament and the Council. That evaluation report shall be accompanied by an opinion of the Court of Auditors.

CHAPTER V
GENERAL PROVISIONS

Article 17

*Transparency, **communication**, and public disclosure of information*

1. In accordance with its transparency policies and Union **rules** on access to documents and information **and data protection**, the eligible counterparts shall **proactively and systematically** make publicly available on their websites information relating to all financing and investment operations covered by the EFSD Guarantee under this Regulation, relating in particular to the manner in which those operations contribute to the **objectives and** requirements of this Regulation. **Where possible, such information shall be broken down at project level. Such information shall always take into account the protection of confidential and commercially sensitive information.**

2. **The Commission shall publish on its web-portal information on financing and investment operations and the essential elements of all guarantee agreements, including information on the legal identity of counterparts, expected development benefits and complaints procedures in accordance with point (ea) of Article 12(3), taking into account the protection of confidential and commercially sensitive information.**

3. *Eligible counterparts shall publicise the Union support in all information which they publish on financing and investment operations covered by the EFSD guarantee in accordance with this Regulation.*
4. *European Union delegations shall include information about funding opportunities provided by the EFSD in their communication targeted at civil society and the public at large.*

Article 17a

Grievance and redress mechanism

In view of possible grievances of third parties in partner countries, including communities and individuals affected by EFSD Guarantee supported projects, the Commission and European Union delegations shall publish on their websites direct references to the complaints mechanisms of the relevant counterparts which have concluded agreements with the Commission. The Commission shall also provide the possibility of directly receiving complaints related to the treatment of grievances by eligible counterparts. It shall take that information into account in view of future cooperation with those counterparts.

Article 18

Auditing by the Court of Auditors

1. The external audit of the activities undertaken in accordance with this Regulation shall be carried out by the Court of Auditors in accordance with Article 287 of the Treaty on the Functioning of the European Union (TFEU) **and the activities are thus subject to the discharge procedure in accordance with Article 319 TFEU.**
2. For the purpose of paragraph 1 of this Article, the Court of Auditors shall, at its request and in accordance with Article 287(3) TFEU, be granted access to any document or information necessary to carry out its **auditing tasks.**

Article 19

Anti-fraud measures

1. The Commission or the eligible counterparts shall **immediately** notify the European Anti-Fraud Office (OLAF) when, at any stage of the preparation, implementation or closure of financing and investment operations covered by this Regulation, they have grounds for suspecting fraud, corruption, money laundering or any other illegal activity that may affect the financial interests of the Union. **They shall provide it with all necessary information to enable a full and thorough investigation to be carried out.**

2. OLAF may carry out investigations, including on-the-spot checks and inspections, in accordance with the provisions and procedures laid down in Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council, Council Regulation (Euratom, EC) No 2185/96 and Council Regulation (EC, Euratom) No 2988/95 in order to protect the financial interests of the Union, with a view to establishing whether there has been fraud, corruption, money laundering or any other illegal activity affecting the financial interests of the Union in connection with any financing and investment operations covered by this Regulation. OLAF may transmit any information obtained in the course of its investigations to the competent authorities of the Member States concerned.

Where such illegal activities are proven, the eligible counterparts shall undertake recovery efforts with respect to its financing and investment operations covered by this Regulation that are concerned by such activities, ***and shall also provide to the relevant authorities all information needed for investigation and possible prosecution.***

Article 20

Excluded activities and non-cooperative jurisdictions

1. In their financing and investment operations, the eligible counterparts shall ***comply with applicable EU legislation and agreed international and EU standards and, therefore, shall not support projects under this Regulation that contribute to*** money laundering, ***terrorism*** financing, ***tax avoidance***, tax fraud and tax evasion.

In addition the eligible counterparts shall not ***enter into new or renewed operations with entities incorporated or established in jurisdictions listed under the relevant EU policy on non-cooperative jurisdictions, or that are identified as high risk third countries pursuant to article 9.2 of Directive (EU) 2015/849, or that do not effectively comply with EU or internationally agreed tax standards on transparency and exchange of information. The eligible counterparts may derogate from this principle only if the project is physically implemented in one of those jurisdictions, and does not present any indication that the relevant operation falls under any of the categories listed in paragraph 1.***

When concluding agreements with financial intermediaries, the eligible counterparts shall transpose the requirements referred to in this Article into the relevant agreements and shall request the financial intermediaries to report on their observance.

2. In its financing and investment operations, the eligible counterpart shall apply the principles and standards set out in Union law on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and in particular Regulation (EU) 2015/847 of the European Parliament and of the Council and Directive (EU) 2015/849 of the European Parliament and of the Council. The eligible counterparts shall make both direct funding and funding via intermediaries under this Regulation contingent upon the disclosure of beneficial ownership information in accordance with Directive (EU) 2015/849 (*the EU Anti-Money Laundering Directive*) and publish *country-by-country reporting data in accordance with Article 89(1) of Directive 2013/36/EU of the European Parliament and of the Council*.

CHAPTER VI
FINAL PROVISIONS

Article 21

Entry into force

This Regulation shall enter into force on the █ day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President