Briefing
EU Legislation in Progress

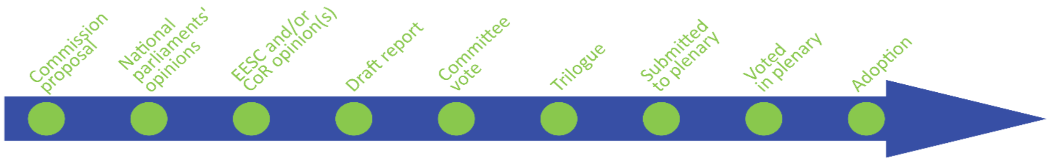
European Parliament

CONTENTS

European Fund for Sustainable Development (EFSD)

The Commission took the opportunity provided by the September 2016 proposal for mid-term review/revision of the 2014-2020 MFF 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. This plan, one of the legislative priorities for 2017, listed in the Joint Declaration by the European Parliament, the Council and the European Commission of 13 December 2016 is an important building block of the reformed EU migration policy. The new 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, 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	
COM(2016) 586 of 14.9.2016, 2016/0281(COD), Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')	
Committees responsible:	Foreign Affairs (AFET), Development (DEVE), and Budgets (BUDG) jointly under Rule 55
Rapporteurs:	Doru-Claudian Frunzulică (S&D, Romania) Eduard Kukan (EPP, Slovakia) Eider Gardiazabal Rubial (S&D, Spain)
Procedure completed.	Regulation (EU) 2017/1601 OJ L 249, 27.9.2017, pp. 1-16



13 November 2017
Third edition
The 'EU Legislation in Progress' briefings are updated at key stages throughout the legislative procedure.
Please note this document has been designed for on-line viewing.

Print

Author: Marta Latek
Members' Research Service
PE 595.837

EN

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 presented 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 is 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, are 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.

Eight EU regional blending facilities, under three main blending frameworks, depending on the EU financing instrument, provide support for key investments in partner countries (see Table 1). These geographically focused mechanisms combine 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	Latin America Investment Facility (LAIF)	2010	€232 million for 28 projects (2010-2015)	1:29	
	Asia Investment Facility (AIF)	2010	€89 million for 18 projects (2010-2015)	1:30	
	Investment Facility for Central Asia (IFCA)	2010	€119 million for 22 projects (2010-2015)	1:7	
European Development Fund (EDF) blending framework	Africa Investment Facility (AfIF)	2015	€654.9 million for 77 projects (2007-2015)	1:14	Part of EFSD
	(replacing former EU-Africa Infrastructure Trust Fund (EU -AITF) in place since 2007)				
	Caribbean Investment Facility (CIF)	2012	€68.6 million for 9 projects (2012-2015)	1:8	
	Investment Facility for the Pacific (IFP)	2012	Two EIB-led operations €10 million (2012-2014)	No data	
European neighbourhood blending framework	Neighbourhood Investment Facility (NIF)	2008	€1.072 billion 95 projects (2008-2014)	No data	Part of EFSD
	Western Balkans Investment Framework (WBIF)	2009	€480 million 144 projects (2009-2016)	No data	

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, €2.7 billion out of €2.9 billion, is an EU contribution from European Development Fund (EDF) reserves. The rest, €227 million, is pledged, but not yet fully provided, mainly by EU Member States. Up to September 2017, 117 programmes had been approved, for an amount of €1.9 billion.

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.

According to the resolution of 5 April 2017 on addressing refugee and migrant movements: the role of EU external action, EU development policy should continue to address the underlying causes of forced displacement. The resolution also welcomed the new partnership framework. However, it also voiced concern regarding the quantitative approach apparent in the migration compacts, which propose measurable increases in the number and rate of returns as a main goal. Moreover, it 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 resolution expressed support for the external investment plan, and called upon the Commission to ensure coherence between various financing instruments and projects, and to avoid dispersal of EU funds. It is noted 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 called for greater European Parliament involvement in the scrutiny of the new financial instruments, including a seat for Parliament on their steering committees.

In its legislative resolution of 6 July 2017 on the proposal for a regulation on the European Fund for Sustainable Development (EFSD) and establishing the EFSD Guarantee and the EFSD Guarantee Fund, the Parliament stressed that the EFSD should be guided by the objectives of EU external action and EU development policy. Its investments should contribute to implementation of Agenda 2030, the Paris Agreement and as well the new EU partnership framework on migration with third countries and EU Neighbourhood Policy. To activate this, the Parliament proposed to specify accordingly the eligibility criteria for EFSD-supported projects. In addition, action supported should be designed in a way that fulfils the ODA criteria and in line with agreed development effectiveness principles. Parliament finds it particularly important that the EFSD should have additional and measurable development impact. To achieve optimal accountability, the annual report presented to the EP should be made public and allow the relevant stakeholders to express their opinions. The Parliament has also proposed the establishment of a grievance and redress mechanism for civil society and individuals affected by EFSD guarantee-supported project in partner countries.

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.

Proposal

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 EFDS Guarantee Fund constitute one of the three pillars of the external investment plan. Alongside the new fund (pillar 1), the Commission focuses 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 is 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 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. An agreement between the Commission and the EIB will further define the EIB role. The Commission will 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 the 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.

Views

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 opinion, adopted on 22 February 2017, 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[1]

While African Union representatives have welcomed the new European External Investment Plan as an innovative way of mobilising resources to improve investment on the continent, European non-governmental organisations (NGOs) have been much more sceptical.

1 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'.

Concerning the new partnership framework with third countries overall, some NGOs have denounced the 'instrumentalisation' of development policy for migration management purposes, rejecting 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.

According to Concord's Aid Watch Repot 2017, blending instruments as such are better suited to middle income countries, and putting more development money in such instruments may further affect financial assistance for the least developed countries (LDCs). The European Parliament's approach is however welcomed as advocating safeguards for sustainability, women and workers' rights and environmental standards, and commitments to assess the expected additionally.

Legislative process

The proposal was forwarded to the European Parliament and 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 drew up a single draft report, which was then examined in meetings chaired jointly by the three committees' chairs, and voted by the committees concerned on 24 April 2017.

On 13 December 2016, the Council had adopted its negotiating position in the form of a partial general approach (partial because financial amounts were in brackets, pending the MFF review, which was subsequently adopted on 20 June 2017). The Council position saw the EIB's role in the operational management of the EFSD guarantee reinforced and embodied in a specific agreement with the Commission. It also proposed to earmark at least 20 % of the funding for sectors contributing to the implementation of the Paris Agreement on Climate Change, and stressed the need for all actions under the EFSD regulation to fulfil the ODA-DAC criteria.

Following a series of trilogue meetings, from the beginning of May until early July, the final agreed text was adopted at first reading by the European Parliament in plenary on 7 July 2017. Among the Parliament's demands agreed were: financed projects must fulfil official development assistance (ODA) criteria; a minimum share (28 %) of EFSD funding to support investments contributing to implementation of the Paris Agreement on climate change; more extensive definition of additionality and the complementarity of EFSD operations; clear eligibility criteria for investment projects, including respect of international environmental and social standards of responsible investment; and a stronger scrutiny role for the EP, including observer status on the strategic board.

On 25 September 2017, the Council formally adopted the regulation establishing a European fund for sustainable development (EFSD), which was published in the Official Journal on 26 September 2017.

References

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).

Disclaimer and Copyright
This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.
Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.
© European Union, 2017.

eprs@ep.europa.eu | EPRS (intranet) | Thinktank (internet) | Blog