

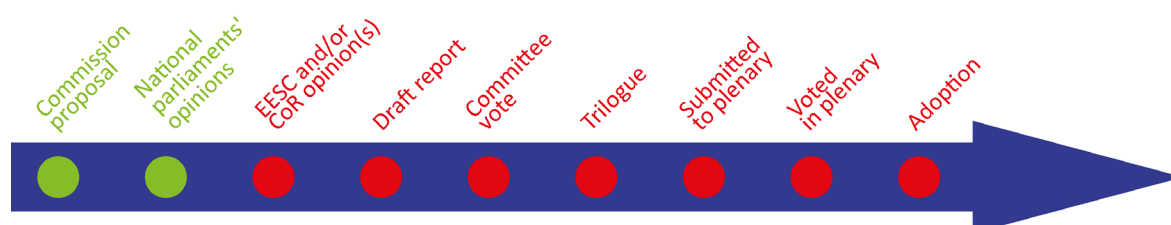
Amending the European Fund for Sustainable Development

OVERVIEW

The EU is in the process of adapting its budgetary instruments to respond to the consequences of the coronavirus crisis, in particular in raising the established ceilings for some financial instruments. The proposed adjustments include, among other things, measures aimed at helping the most fragile third countries recover from the consequences of the pandemic. In particular, on 28 May 2020, the European Commission put forward a proposal concerning the European Fund for Sustainable Development (EFSD) in order to expand its coverage and raise the funds dedicated to leverage private investment for sustainable development and the guarantees to de-risk such investment. On 21 July 2020, the European Council rejected the draft amending budget that would have provided increased EFSD funding for the current year.

Proposal for a regulation of the European Parliament and of the Council amending regulation (EU) 2017/1601 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund

<i>Committees responsible:</i>	Foreign Affairs (AFET), Development (DEVE) and Budgets (BUDG), jointly under Rule 58	COM(2020) 407 28.5.2020
<i>Rapporteurs:</i>	<i>To be appointed</i>	2020/0107(COD)
<i>Shadow rapporteurs:</i>	<i>To be appointed</i>	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Publication of draft report and discussion in committee	



Introduction

The Covid-19 outbreak has led to [negative global growth](#) in 2020. According to the International Monetary Fund, the global recession will have severe impacts on developing countries, [including](#) 'the health crisis, a severe external demand shock, a dramatic tightening in global financial conditions, and a plunge in commodity prices'. This puts an additional strain on these countries, especially the most fragile. The World Bank estimates that the pandemic will push 49 million more people into [extreme poverty](#). The number of [migrants and asylum-seekers](#) trying to escape the disease, food insecurity and unsustainable economic conditions will rise sharply. The [humanitarian cost](#) of the pandemic was already estimated in May 2020 at US\$6.7 billion, putting the [overall humanitarian funding requirement](#) to US\$39.8 billion, with a funding gap already over 75 %. To help its partners to face these challenges – and mitigate their consequences on the EU Member States – the Union will need to harness development aid, notably through raising the ceilings of the European Fund for Sustainable Development (EFSD).

Existing situation

The [EFSD](#) is the financing arm of the European [External Investment Plan](#) (EIP), launched in 2017 to improve leverage on EU investment in third countries, in particular the most fragile ones and countries of origin or transit of migration to the EU. The EIP has three pillars: financing by means of the EFSD ([Regulation \(EU\) No 2017/1601](#)), expertise for technical assistance to local partners, and dialogue to improve the business environment in partner countries. The EFSD currently consists of two regional platforms: one for Africa and one for the EU neighbouring countries. The EFSD aims at leveraging investments dedicated to contributing to the achievement of the United Nations (UN) Sustainable Development Goals (SDGs), notably with a view to addressing the root causes of migration. To address these aims, it gives public and private investors access to a number of EU blending facilities, backed by the EFSD Guarantee and the EFSD Guarantee Fund.

According to the [EFSD operational report 2018](#), the total budget for EU grants used for blending and guarantees has grown to €4.5 billion, of which €3.7 billion was already allocated on 31 December 2018. These grants helped leverage around €37 billion (up to €44 billion expected for 2020 at the time). An [independent assessment](#) from January 2020 considers that 'the EFSD enables the EU to do two things that are difficult to do with other EU instruments – at least to the same scale and with existing budgets: engage much more broadly, and support broad innovation'. This assessment finds that the EFSD is relevant to the investment needs of the countries concerned, and aligns with the EU priorities in these countries, as well as the EU's commitments to achieving the SDGs. It notes that, while the EFSD governance is managed in a transparent way, its monitoring framework lacks a clear methodology and comparability of indicators.

Parliament's starting position

In its resolution of [6 July 2017](#) on the initial proposal for a regulation on the EFSD, the EFSD Guarantee and the EFSD Guarantee Fund, the European Parliament approved the EFSD, provided it favours investments contributing to the Paris Agreement on climate and the UN SDGs. At the request of Parliament, clear eligibility criteria were added for investment projects, including the fulfilment of official development assistance (ODA) criteria, and respect for international environmental and social standards for responsible investment. Parliament was also successful in its demand that at least 28 % of EFSD funding be dedicated to support investments contributing to the implementation of the Paris Agreement. Parliament has gained observer status on the [EFSD strategic board](#) – the members of which are the Commission, the European External Action Service, the European Investment Bank and all EU Member States. This position and the annual reporting by the Commission (and a [stocktaking report](#) submitted in 2020) allow Parliament to exercise stronger scrutiny. Parliament agreed on the establishment of the current EFSD on 7 July 2017.

Council and European Council starting position

The Council [adopted the current regulation](#) on 25 September 2017, after a [trilogue agreement](#) incorporating Parliament's main requests was reached.

On 23 April 2020, in order to implement a plan to help EU Member States and third countries recover from the impact of coronavirus, the [European Council](#) requested the Commission to consider amending its proposal for the Multiannual Financial Framework (MFF) 2021-2027 and other budget-related tools and legislation.

Preparation of the proposal

The Commission presented its [recovery package](#) on 27 May 2020. The Commission's proposal implies adapting a certain number of tools used to channel the EU funds, notably the EFSD, EFSD Guarantee and EFSD Guarantee fund. The proposal for amending the EFSD regulation was prepared by the Commission's Directorate-General for International Cooperation and Development (DG DEVCO). The [explanatory memorandum](#) accompanying the proposal mostly refers to considerations laid down in the proposal for the initial regulation. It also indicates that the additional funding would be financed within the Commission's proposal for revision of the current multiannual financial framework, and specifies the main changes the proposal would bring.

The changes the proposal would bring

The [proposal](#) for an amending Regulation on the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund aims to:

- add Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, North Macedonia) in the list of beneficiaries;
- allow supplementary funds for recovery plans to be delivered through the EFSD. This would add €1 040 million to the EFSD, increase the EFSD guarantee by €2 078 million euros, with a ceiling up to €3 578 million;
- prolong the current deadline for the examination of counterparts' eligibility to the guarantee until 31 December 2021.

The proposed increase in the EFSD only concerned the current multiannual financial framework, ending on 31 December 2020. It was reflected in [draft amending budget No 6](#) to the general budget 2020 (6/2020) – later rejected by the European Council (see 'Legislative process below').

For the MFF 2021-2027, the Commission has laid down a proposal for an extended EFSD (EFSD+)¹ which would include all existing EU blending facilities and have worldwide coverage. EFSD+ is not touched upon by the present proposal.

National parliaments

The deadline for the submission of reasoned opinions on the grounds of subsidiarity was [30 July 2020](#).

Stakeholder views²

[When the EFSD was launched](#), EU Civil Society Organisations (CSOs) raised concerns over [the use of development funds for de-risking private investment](#). As a rule, reiterated in a [letter](#) to the European Council in June 2020, most EU CSOs acting in the area of development cooperation call for 'redirect[ing] some of the money intended for leveraging private finance towards grant-based support'.

Legislative process

On 28 May 2020, the European Commission submitted its proposed amendment to the EFSD regulation to the Council and the European Parliament (procedure [2020/0107\(COD\)](#)).

On 21 July 2020, the [European Council](#) agreed on the recovery package and on the 2021-2027 MFF, but rejected the idea of making changes to the 2014-2020 MFF, and thus also rejecting draft amending budget 6/2020 (which would have provided additional financing for the EFSD in 2020).

On 23 July 2020, the [European Parliament](#) regretted that the European Council had rejected the draft amending budget 6/2020.

While the proposed addition of Western Balkan countries as EFSD beneficiaries and the proposed extended deadline for eligibility (see above 'The changes the proposal would bring') have not formally been rejected by the European Council, it is possible that the lack of additional funding might lead the European Commission to withdraw the whole proposal. Otherwise, the EFSD amendment will be examined by the European Parliament, as it is subject to the ordinary legislative procedure, in which Parliament and Council act on an equal footing.

In Parliament, the Committees on Foreign Affairs (AFET), Development (DEVE), and Budgets (BUDG) would work jointly on the report that prepares the discussion in plenary ([Rule 58](#) of the Parliament's Rules of Procedure).

EP SUPPORTING ANALYSIS

EPRS, [European Fund for Sustainable Development \(EFSD\) and establishing the EFSD Guarantee and the EFSD Guarantee Fund](#), Legislative Train Schedule.

Latek M., [EU legislation in progress: European Fund for Sustainable Development \(EFSD\)](#), EPRS, European Parliament, November 2017.

Svasek M., [How the EU budget is spent: European Fund for Sustainable Development](#), EPRS, European Parliament, April 2019.

[The use of development funds for de-risking private investment: how effective is it in delivering development?](#), Policy Department for External Relations, European Parliament, January 2020.

OTHER SOURCES

[European Fund for Sustainable Development \(EFSD\), the EFSD Guarantee and the EFSD Guarantee Fund 2020/0107\(COD\)](#), European Parliament, Legislative Observatory (OEL).

ENDNOTES

¹ See: [Proposal for a regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument](#) (COM/2018/460 final), Recitals (33) to (38), Articles 26 to 30 and Annexes V and VI.

² 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'.

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